

» 2013/14
Annual Report

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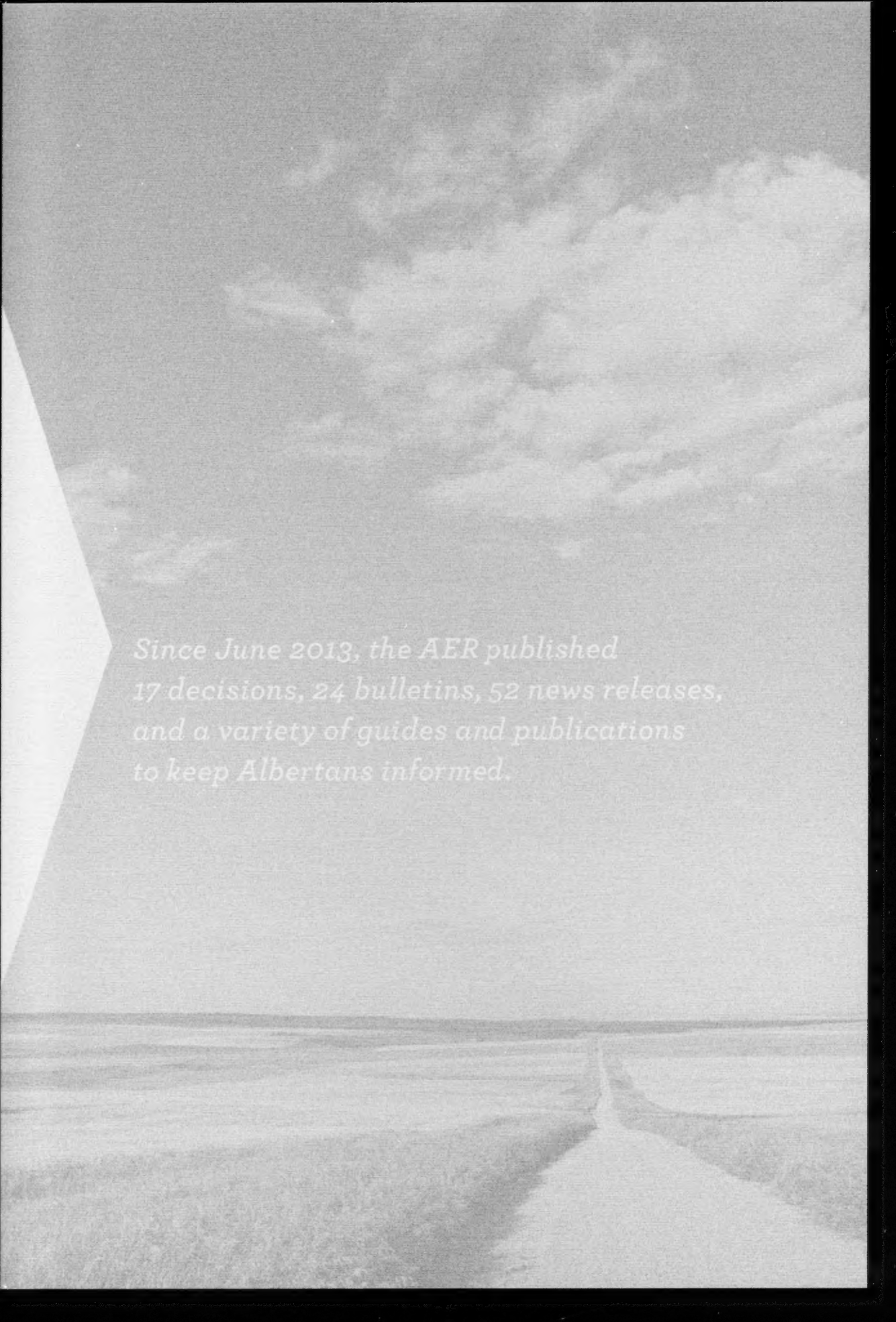
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*Since June 2013, the AER published
17 decisions, 24 bulletins, 52 news releases,
and a variety of guides and publications
to keep Albertans informed.*

Message from the Chair




Gerard Protti
Chair

» **It was just over a year ago** that I was appointed chair of the Alberta Energy Regulator (AER), created by the Government of Alberta to act as the single regulator of energy resource development in our province. I can say without reservation that it has been quite a year.

On June 17, 2013, the government proclaimed certain sections of the *Responsible Energy Development Act*, launching the AER and our new governance model, which separates the corporate, operational, and adjudicative functions. That moment came after years of planning, through the government's Regulatory Enhancement Project, and many months of hard work on the part of our staff.

That was just the start. Besides retaining all regulatory functions of the Energy Resources Conservation Board, the AER took on responsibility for sections of the *Public Lands Act*, Part 8 of the *Mines and Minerals Act*, the *Environmental Protection and Enhancement Act*, and the *Water Act* as they relate to energy resource development.

We are now a single, full life-cycle regulator of energy resource development in Alberta — from initial application and exploration, to abandonment, reclamation, and remediation. In addition, we have a new strategic plan that ensures our work is supported by four strong priorities:

Protective

of public safety and the environment

Effective

through resource conservation and infrastructure liability management

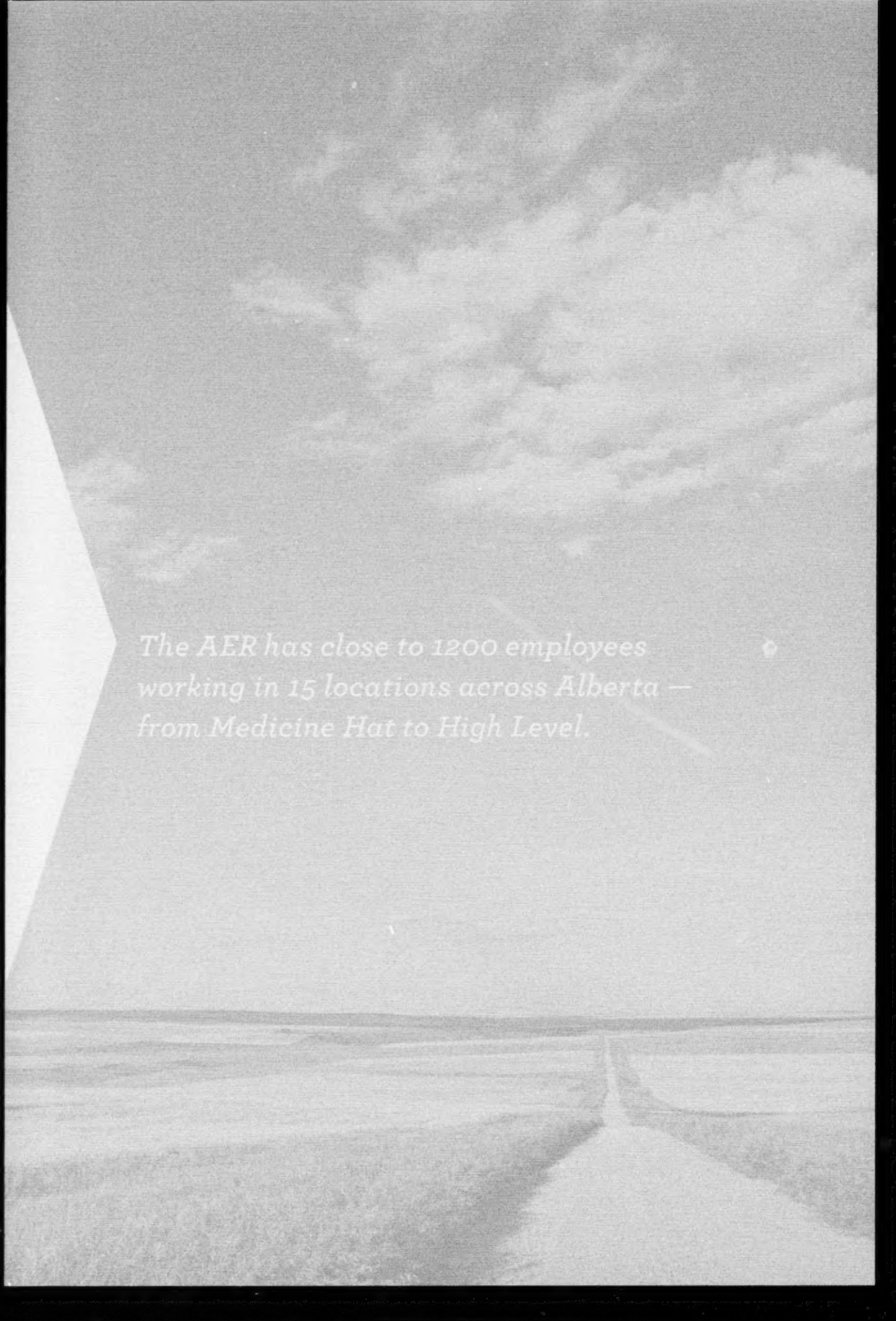
Efficient

in our processes and requirements

Credible

by creating confidence and trust in the regulatory system

Alberta is a beautiful province blessed with some of the world's most impressive oil and natural gas resources. At the AER, we're committed to becoming a best-in-class energy regulator that makes sure the development of those resources is safe, environmentally responsible, and efficient, and brings economic benefits for all Albertans.



*The AER has close to 1200 employees
working in 15 locations across Alberta —
from Medicine Hat to High Level.*

Message from the President & CEO

5



Jim Ellis

Jim Ellis
President &
Chief Executive Officer

The Alberta Energy Regulator has reached an exciting milestone as we approach the one-year mark. We have transitioned to Alberta's single energy regulator and now turn our focus to becoming a regulator that is protective, effective, efficient, and credible — a regulator that is best in class.

I'm proud of what AER employees have accomplished to date. We have a new mandate and a new approach to energy regulation. We've taken on new regulatory functions in public lands, geophysical work, and the protection of our air, land, and water. We've established a new vision, built an entirely new organizational structure, and developed an ambitious three-year strategic plan.

And yet, the AER wasted no time in demonstrating our commitment to our vision. Over the past year, we've moved quickly to respond to issues and concerns with real action:

We created an online incident-reporting tool that provides transparent, open information on oil-and-gas-related incidents in Alberta, updated daily.

We increased access to AER hearings, offering live audio broadcasts (where technically possible) to help Albertans learn more about the energy development process.

We took action to address potential risks in in situ oil sands development where steam-assisted gravity drainage techniques are used at shallow depths, taking time to conduct a full technical review before allowing new technologies in this area.

We called for the independent proceeding into emissions in the Peace River area and immediately took action to respond to the panel's recommendations to address the issue.

These are just a few highlights of how we strive to be a different kind of regulator. This is how we intend to operate in the months ahead: focusing on key projects — some of which are highlighted in this report — that deliver measurable results. Through this work we will demonstrate to stakeholders at home and around the globe that we will achieve our vision of being a best-in-class energy regulator.

Our Mandate

The AER's mandate is to ensure the safe, efficient, orderly, and environmentally responsible development of hydrocarbon resources over their entire life cycle. This includes allocating and conserving water resources, managing public lands, and protecting the environment while providing economic benefits for all Albertans.

Our Vision

The Alberta Energy Regulator is recognized as best in class, ensuring the safe, environmentally responsible development of energy resources for the benefit of all Albertans.

About the Alberta Energy Regulator

» **The Alberta Energy Regulator (AER)** is the single provincial regulator for oil, natural gas, oil sands, and coal development in Alberta. The AER provides for the safe, efficient, orderly, and environmentally responsible development of energy resources. This includes allocating and conserving water, managing public lands, and protecting the environment, while securing their economic benefits for all Albertans.

Our Responsibilities

With established reserves of 167 billion barrels of bitumen and crude oil, 33.7 trillion cubic feet of natural gas, and 37 billion tons of coal, the AER regulates some of the world's largest hydrocarbon resources. Developing and transporting these resources requires significant infrastructure: the AER regulates

- » a provincial pipeline network of 415 000 kilometres,
- » 181 300 operating wells,
- » more than 50 000 oil and gas facilities,
- » more than 200 thermal oil sands projects,
- » 9 oil sands mines,
- » 5 bitumen upgraders,
- » 11 coal mines, and
- » 4 coal processing plants.

To ensure that this activity is safe, environmentally responsible, and closely managed, the Government of Alberta has granted the AER authority to

- » review and make decisions on proposed energy developments,
- » oversee all aspects of energy resource activities in accordance with government policies,
- » regularly inspect energy activities to ensure that all applicable requirements are met,
- » take enforcement action to respond to companies that fail to comply with AER requirements, and
- » hold hearings on proposed energy developments.

Supporting all of this work are close to 1200 technical staff, scientists, inspectors, investigators, stakeholder engagement specialists, lawyers, regulatory experts, and other employees working from 15 locations stretching from Medicine Hat in the south to High Level in the north.

*With the AER,
Alberta now
has a single
regulator for oil,
natural gas, oil
sands, and coal
development.*

Our First Year

Energy regulation in Alberta spans 76 years and has evolved over time.

This evolution continued in June 2013 when the AER became a new organization with an entirely new governance structure and took over responsibilities previously held by the Energy Resources Conservation Board (ERCB). We then worked to take on additional regulatory functions related to energy development from Alberta Environment and Sustainable Resource Development (ESRD).

This journey began with the Government of Alberta's Regulatory Enhancement Project, which was designed to ensure that Alberta's resource policy development, public consultations, and energy development regulation are efficient and competitive while supporting public safety, environmental management, and resource conservation objectives. From this process the government passed the *Responsible Energy Development Act (REDA)* in 2012, and on June 17, 2013, the AER was created.

The AER is part of the Government of Alberta's Integrated Resource Management System, which includes

- › the Government of Alberta, which sets policy;
- › the Alberta Environmental Monitoring, Evaluation and Reporting Agency, which provides data and information;
- › the Aboriginal Consultation Office, which manages First Nations consultation on behalf of the Government of Alberta; and
- › the Policy Management Office, which is the key interface between government and the AER on policy issues related to energy development.

Creating the AER was a complex task that required careful implementation, especially considering that all energy regulation activities in the province

continued throughout the transition. The AER managed this transition with the Government of Alberta through a three-phased approach.

- › Phase 1 occurred in June 2013 when the government proclaimed certain sections of *REDA*, resulting in the launch of the AER and its new governance model. At that time the AER took on all responsibilities previously managed by the ERCB.
- › Phase 2 occurred in November 2013 when we took on responsibilities from ESRD, beginning with public land and geophysical jurisdiction, and established a Private Surface Agreements Registry for landowners and residents who wish to register private agreements they have signed with companies.
- › Phase 3 occurred on March 29, 2014, when the AER took responsibility for sections of the *Environmental Protection and Enhancement Act* and the *Water Act* as they relate to energy development — the final phase in creating a single regulator for upstream oil, oil sands, natural gas, and coal development in Alberta.

Our transition is now complete, and the AER is the single regulator of energy development in Alberta — from initial application and exploration, to construction and development, to abandonment, reclamation, and remediation.

2013/14 Highlights

Our first year was full of milestones and accomplishments. We met targets around building Alberta's single energy regulator and demonstrated our commitment to transparency, accountability, and results.

Early successes in efficiency with updated well logging requirements

Until February 2014, making sense of well logging requirements in Alberta was more taxing than the act itself. That is, until the AER updated *Directive 080: Well Logging* to introduce more efficient well logging and submission requirements.

An outdated requirement was not keeping up with changes in technology, and as a result, logging waivers were being processed for over 5000 wells, creating additional work for industry and the regulator.

The new directive has been in place for only a few months, but positive results are already being reported:

- › a reduction in waivers,
- › a decrease in processing times and costs,
- › requirements that are more current with today's drilling practices, and
- › a more efficient submission system.

At the end of the day, both industry and the AER save time and improve efficiency while maintaining our environmental standards.

Highlights ›

Highlights

《June》

Officially launched the AER, taking on regulatory responsibilities from the former ERCB.

Established a new governance model that separates the corporate, operational, and governance responsibilities from adjudicative functions.

Introduced an online incident-reporting tool to improve transparency by posting energy-related incidents that may impact the public or the environment.

Maintained provincial operations during the 2013 Southern Alberta floods, including emergency response and business continuity during the closure of our head office in Calgary.

Expanded our social media presence, launching new tools to better inform Albertans about the work of the AER

(see page 44 for details).

《July》

Committed to conducting a full-scale audit on Plains Midstream Canada's Alberta operations.

Called for a public proceeding into emissions and odours generated by heavy oil operations in the Peace River area.

《August》

Created the Stakeholder and Government Relations Division to enhance the AER's outreach to our various stakeholders.

Established a presence in downtown Edmonton, Slave Lake, and Peace River.

Supported the Government of Alberta in the release of the *Alberta Pipeline Safety Review* and the AER's response to the recommendations in the independent report.



2013

(November)


Established a new organizational structure featuring a "matrix" approach that combines the functional areas of the organization with the key sector areas to improve our operations.

Developed the target operating model, a blueprint to help the AER deliver on our mandate.

Took on expanded authority under the *Public Lands Act* and Part 8 of the *Mines and Minerals Act* as they relate to energy development.

(December)

Provided landowners with new tools to protect their rights and give them more access to information with the Private Surface Agreements Registry.

 Enhanced transparency by publishing public notices of applications and decisions online.

Launched a new process allowing Albertans to file a statement of concern if they feel they are directly impacted by an application for energy development.

Increased our focus on enforcement with a new approach to compliance, including additional authorities and enforcement tools.

Improved processing of applications under the *Public Lands Act* to address backlogs and delays (see page 38 for details).

Highlights

(January)

Held a public proceeding into emissions and odours generated by heavy oil operations in the Peace River area.

Took action to address potential risks associated with in situ oil sands development where steam-assisted gravity drainage techniques are used at shallow depths, taking time to conduct a full technical review before allowing new technologies in this area.

(February)

Updated the Licensee Liability Rating Program to better reflect actual abandonment and reclamation costs, protecting Albertans from financial risk
(see page 24 for details).

Issued *Directive 080: Well Logging*, which updates our requirements for the submission of well logs, making the process more efficient
(see page 9 for details).

(March)

Completed the transition to the AER by assuming responsibility for the *Environmental Protection and Enhancement Act (EPEA)* and the *Water Act*, including reclamation and remediation.

Completed hiring of more than 235 employees to support all phases of the transition to the single regulator.

Issued the panel report for the proceeding into emissions and odours generated by heavy oil operations in the Peace River area.

Signed a memorandum of understanding with the Government of the Northwest Territories (GNWT) to provide technical support, on a cost recovery basis, for all aspects of upstream oil and gas regulation as the GNWT assumes responsibility for the sector from the federal government.



2014

《April》

Released the official AER response to the proceeding into emissions and odours generated by heavy oil operations in the Peace River area, accepting the panel's recommendations

(see page 28 for details)

Released the revised *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting*, which strengthens regulations to reduce impacts related to flaring, venting, and incineration of gas in Alberta.

《May》

Increased access to hearings by offering live audio broadcasts of AER proceedings where technically possible.

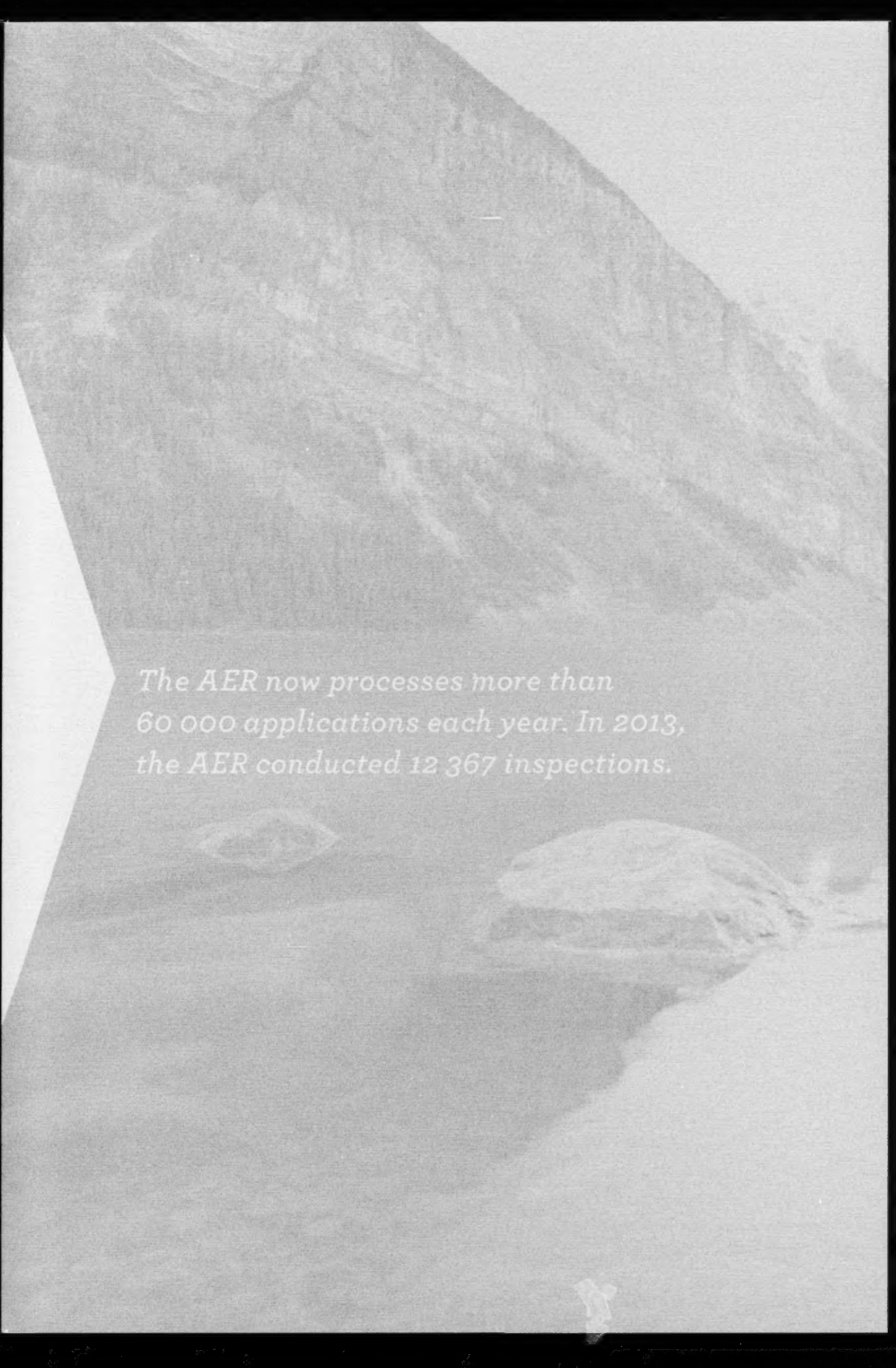
Signed a memorandum of understanding with the British Columbia Oil and Gas Commission, creating new opportunities to share information, collaborate on research, and improve our regulatory processes.

Launched the AER's first strategic plan with a focus on becoming a best-in-class energy regulator by being protective, effective, efficient, and credible.





STRATEGIC PLAN



*The AER now processes more than
60 000 applications each year. In 2013,
the AER conducted 12 367 inspections.*

A World-Class Resource

Alberta's energy resources rank among the world's largest and include bitumen, crude oil, natural gas, natural gas liquids, and coal.

Topping that list is bitumen from the province's oil sands deposits, with remaining established reserves at 167 billion barrels in 2013, truly making them a world-class resource. To put things in perspective, less than 10 billion barrels of bitumen have been extracted since the late 1960s.

At 761 million barrels, bitumen production accounted for 78 per cent of Alberta's total crude oil and bitumen production in 2013. Bitumen production in 2013 increased by 5 per cent from mining projects and by 12 per cent from in situ projects, resulting in an overall raw bitumen production increase of about 8 per cent over 2012. As was the case in past years, the in situ production technique of steam-assisted gravity drainage (SAGD) continues to drive the increases in bitumen production.

In 2013, crude oil production increased by about 5 per cent, prompted largely by horizontal multistage fracturing completion methods in "tight" oil formations.

Conventional natural gas reserves were 32 trillion cubic feet (Tcf) in 2013, while total production was 3.4 Tcf. Natural gas liquids (NGLs) production increased by 6 per cent after a decline in 2012.

Alberta is also a world leader in coal reserves. In 2013, our coal reserves remained unchanged at 37 billion tons, while only 32 million tons were produced. Alberta's metallurgical coal primarily serves the Asian steel industry, with Japan and now China being the leading importers of Alberta coal. Overall, total marketable production of coal has increased by 3 per cent relative to 2012, mainly due to the return of some coal-fired units to service. On February 27, 2014, the AER approved Coalspur Mines (Operations) Ltd.'s Vista coal mine project, with numerous conditions.

Alberta's energy resources rank among the world's largest and include bitumen, crude oil, natural gas, natural gas liquids, and coal.

A study conducted by the regulator in 2012 estimated that the hydrocarbons resource from shales — so-called “shale gas,” “shale NGLs,” and “shale oil” — is estimated to be a very large and important potential energy supply for Alberta and the world. Best estimates put the in-place resource at 3424 Tcf of gas, 58.6 billion barrels of NGLs, and 423.6 billion barrels of crude oil.

However, geological and reservoir engineering constraints, recovery factors, and additional economic factors, as well as social and environmental considerations, will ultimately determine the potential recovery of these large resources.

POTENTIAL ENERGY SUPPLY

3424^{TCF}

in-place natural gas

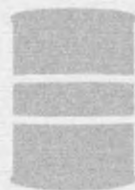


58.6^{BBLs}

in-place natural gas liquids

423.6^{BBLs}

in-place crude oil



Drivers for Change

The energy development landscape in Alberta, as in many regions of the world, is changing rapidly. Influencing this change are advances in technology, especially the drilling of long-reach horizontal wells that are completed by multistaged hydraulic fracturing. By combining new technology with established methods to develop oil and gas reserves, companies are able to tap resources trapped in organic-rich shales and tight rock previously considered uneconomic.

The impacts of this change are significant:

- › It alters historical geographic supply and demand patterns.
- › It increases resource development opportunities.
- › It drives competition for investment dollars.
- › It creates new environmental risks.

The AER understands that these challenges require a new regulatory approach that ensures these resources are developed

- › safely, to protect the public;
- › responsibly, to protect the environment; and
- › efficiently, to manage the costs of regulation.

At the same time, the rise of social media and real-time communications calls for the AER to increase transparency and information sharing to inform stakeholders about energy resource development in Alberta.

Now more than ever, the AER must proactively identify and manage emerging risks.

Alberta has world-class resources. We must ensure that the development of these resources is safe and environmentally responsible and provides benefits to all Albertans. This requires a best-in-class energy regulator, one that addresses the risks and challenges of today's production technologies, anticipates new trends, and applies effective and efficient regulatory oversight.

The AER is committed to making the regulatory system more efficient and effective. Now that we have completed the transition to a single regulator, we turn our focus to transformation by

- › making our regulatory processes more efficient,
- › making our requirements more effective, and
- › modernizing and integrating our IT systems to support these new business processes.

*We are
committed
to being a
best-in-class
energy
regulator.*

As part of the Government of Alberta's Integrated Resource Management System, the AER must be equipped to manage cumulative effects. This is even more important as energy resource development evolves from small-scale, well-by-well projects to large-scale projects that require more infrastructure and have larger footprints, such as those targeting resource plays and oil sands.

The AER must consider the cumulative impact of these developments along with other uses of the landscape. As pressure on the land continues to increase, we must ensure that regulations align with land-use policies and related energy and environmental policies as a single integrated system.

Public opinion research conducted in 2014 indicated that Albertans are most concerned about the protection of water, soil, human and animal health, and water usage. Further, they wanted their regulator to focus on public safety, enforcing the rules, incident response, and environmental protection.

The AER also recognizes that stakeholders play a large role in the regulatory process and need assurance that the regulatory system satisfies their expectations of safety, environmental protection, appropriate assessment of risks, and transparent, open communications.

Becoming Best in Class – The AER Strategic Plan

Albertans count on the AER to provide strong regulatory oversight of energy development across the province. We're expected to protect what matters most: public safety and the environment, while ensuring economic benefits from our energy resources. That's our mandate, our core business, and what we focus on every day.

This is important work. But to move beyond that core work, to truly reach our vision to be best in class, we need a strategy, a focus on a few strategic priorities, and a plan for how we will direct our human and capital resources to those priorities in a way that delivers results — results for the AER and our stakeholders.

The AER 2014-17 strategic plan plots a roadmap that helps us select projects and initiatives at an enterprise level, determining what will serve our organization best, help us reach our vision, and make the most of our resources.

To become best in class, we know we need to do more; reaching our vision calls for a proactive strategy that identifies our key priorities and establishes clear performance measures to ensure that we stay on track and can demonstrate our results.

The strategic plan includes our strategic priorities, strategic outcomes, themes (areas of focus), and performance measures and targets against which the AER will monitor its progress and how others will measure our success.

Our strategy reflects our mandate, our vision, and our pursuit of best in class by being **protective, effective, efficient, and credible**.

Our strategy is designed to help us reach our vision: The Alberta Energy Regulator is recognized as best in class, ensuring the safe, environmentally responsible development of energy resources for the benefit of all Albertans.

2014-17 Strategic Plan

Strategic priorities	Strategic outcome	Theme
Protective Develop integrated whole-system regulatory approach	Effective management of public safety, and cumulative environmental risks and impacts	Play-Based Regulation (land and water)
		Tailings water management
		Air emissions
		Integrated Resource Management System
Effective Strengthen risk-based regulation	Effective management of resource conservation and minimize financial liability on Albertans	Aging Infrastructure and Liability Management
		Reservoir containment
		Pipeline safety
Efficient Transform Alberta's energy regulatory system to improve efficiency	The regulatory system is efficient, minimizing duplication, with highly efficient processes, and only intervening to the level necessary	Operations continuous improvement
		Regulatory simplification
Credible Increase trust and confidence in how energy is developed in Alberta	Stakeholders are confident about how energy is developed in Alberta	Open, transparent communication
		Stakeholder engagement
		Best-in-class review

*Performance measures

Volume of all water (fresh, saline, and recycled) used for oil, oil sands, and gas operations

Volume of gas flared and vented from oil and gas operations

Proportion of inactive wells that meet current suspension requirements

Adoption of risk-based regulation to respond to changes in technology and complexity in oil sands development

Number of incidents per kilometre of pipelines regulated by the AER

Regulatory process efficiencies

Relevant regulatory requirements

Percentage of Albertans confident that oil and gas development is occurring responsibly

Stakeholder rating of AER performance in key areas of concern

Recommendations for best-in-class performance are developed through stakeholder collaboration

*Performance targets

Work with GoA to set benchmarks and requirements for reduction of water use for energy resource development

Implementation of regulations aligned with Alberta's Tailings Management Framework

Flaring levels are within provincial guidelines

100 per cent of high-risk inactive wells meet AER suspension requirements

Complete shallow SAGD caprock integrity study

Pipeline incident rate reduced by 4 per cent

\$60 million in verified cost savings from efficiency initiatives in the first year

Complete a full regulatory review to identify and execute opportunities for consolidation and simplification

10 per cent increase in awareness of the AER and its role in regulating energy development in Alberta

10 per cent increase in positive perceptions/rankings of AER performance

Completion and release of recommendations in 2015

Vision

The AER is recognized as best in class, ensuring the safe, environmentally responsible development of energy resources for the benefit of all Albertans.

* Performance measures and targets will be modified and expanded following input from stakeholders and partners.

our priorities – protective

protective

Develop an integrated, whole-system regulatory approach to safety, environmental protection, and risk management

At the AER, we know that regulating a world-class energy resource is a huge responsibility. The first priority of our strategic plan is to be protective. We will protect public safety and the environment.

The AER recognizes that any type of industrial activity comes with risks. These risks can be minimized through strong regulatory requirements at every stage of energy resource development and by making sure that energy resource projects are remediated at the end of their lives.

This means we will manage Alberta's energy resource development to respond quickly and effectively to new technologies, market conditions, and potential risks.

As new technology drives the intensity and scale of development, we need a new approach to energy regulation. The AER will address cumulative impacts and align with the province's Integrated Resource Management System as part of the decision-making process for approving energy resource development. We will focus on what's important to Albertans:

- › public safety,
- › protecting our water resources,
- › making sure companies follow safety and environmental requirements, and
- › enforcing compliance when those requirements are not met.

We will do this by working on projects that deliver measurable results in environmental performance, increasing our ability to protect public safety and helping us reduce cumulative environmental impacts. We will do more than deliver on our mandate by strategically focusing on key projects.

PROJECT » Play-Based Regulation

Recognizing the distinct challenges of developing unconventional resources in Alberta — especially with respect to water use, concerns around hydraulic fracturing, and the regional effects of large-scale operations — the AER will be conducting a pilot of play-based regulation. This project will

- » establish requirements for subsurface reservoir management for the pilot area that respond to the unique challenges of this kind of development;
- » create a single application and decision-making process, which means addressing multiple activities under one integrated application process;
- » conduct a full review of the costs and benefits of the play-based approach; and
- » require companies to work together on plans for surface development to minimize the number of facilities and surface impacts, reduce the use of fresh water and reuse water where possible, and engage stakeholders.

Council of Canadian Academies studies shale gas in Canada

Shale gas development in Canada provides both economic opportunities and social and environmental challenges. In a recent paper titled *Environmental Impacts of Shale Gas Extraction in Canada*, the Council of Canadian Academies (CCA) identified elements for effective risk management of technologies to develop and produce shale gas, management systems to control the risks to the environment and public health, an effective regulatory system, regional planning to address cumulative impacts, and stakeholder engagement.

The AER has decades of experience in regulating horizontal fracturing operations, something recognized by the CCA in its report.

"Because the AER is a senior and respected regulatory agency, its regulations are widely used as guidance by other regulatory bodies in Canada."

The AER addresses all five elements outlined in the CCA paper in our draft *Unconventional Regulatory Framework* and is applying them in the delivery of the play-based regulation project, which focuses on large-scale shale gas development projects.

PROJECT » Compliance Assurance Framework

To ensure that energy companies follow the rules, our staff are active across the province, holding industry training sessions and carrying out inspections, audits, and investigations.

Our new approach to compliance puts our focus on higher-risk activities, such as developments near populated or environmentally sensitive areas. In those cases, we would inspect more frequently to make sure that all of our requirements are followed.

When companies fail to follow our rules and requirements, the AER has the authority to take strong action, including shutting down their facilities.

With new authority under the *Environmental Protection and Enhancement Act*, the *Water Act*, and the *Public Lands Act*, the AER has more enforcement tools available to respond to companies that fail to comply with requirements. Simply stated, companies that are allowed to develop Alberta's oil and gas resources must follow all rules, regulations, and requirements. If they don't, there are serious consequences. The AER's enforcement tools include

- » more frequent and detailed inspections,
- » more stringent planning requirements,
- » enforcement orders,
- » shutting down operations,
- » levying of administrative penalties, and
- » prosecution.

The AER will provide Albertans with information about industry's performance record, including our easy-to-access incident-reporting tool and regular posting of investigation reports and compliance activities on our website.

PROJECT » Working Together to Address Tailings Management

Through our risk-based approach to energy regulation, the AER assesses potential risks to safety, the environment, and the responsible orderly development of energy resources. We use this risk assessment to determine how to best respond to those priority areas where risks may be higher, such as the growing number of tailings ponds associated with oil sands mining.

Working as part of a larger province-wide initiative to regulate tailings management, the AER provides scientific and technical advice to the Government of Alberta as it works to develop a tailings management framework. This framework will provide clear policy direction to ensure that the risks associated with tailings ponds are effectively managed.

Once the framework is complete, the AER will work with the Alberta Environmental Monitoring, Evaluation and Reporting Agency to monitor water quality in those tailings ponds areas. Working together as part of an integrated team, the AER's goal is simple — to effectively manage tailings ponds growth and minimize the footprint of tailings ponds throughout their life cycle.

PROJECT » Addressing Air Emissions

We'll also address air emissions caused by energy resource development, specifically in the Peace River area, as we continue to act on the recommendations made by the AER panel from the proceeding into odours and emissions from heavy oil operations in the Peace River area. We've already taken important steps to address the issue by requiring operators in the area to reduce venting from their facilities.

Performance measures and targets

Measure
Volume of all water (fresh, saline, and recycled) used for oil, oil sands, and gas operations

Target
Work with the Government of Alberta to set benchmarks and requirements for reduction of water use for energy resource development

Implementation of regulations aligned with Alberta's Tailings Management Framework

Measure
Volume of gas flared and vented from oil and gas operations

Target
Flaring levels are within provincial guidelines

Responding to concerns in Peace River

In July 2013, president and CEO Jim Ellis called for a proceeding to examine odours and emissions generated by heavy oil operations in the Peace River area. The proceeding allowed residents and operators to express their concerns in a public forum. The proceeding included a review of industry practices and explored possible solutions to this important issue.

The independent AER hearing panel released its recommendations on March 31, 2014. The AER acted

immediately to address the recommendations, accepting all those in our jurisdiction on April 15, 2014.

That same day, the AER released a revised version of *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting*. These revisions require companies to conserve gas, regardless of the economics of an energy operation, and give the AER enforcement tools to address off-lease hydrocarbon odours.

In early May, the AER made further revisions to *Directive 060* and released a revised *Directive 056: Energy Development*



Applications and Schedules. The changes will ensure that casing and tank-top gas are conserved in the Peace River area. Companies that fail to meet these new requirements will face enforcement action.

"We are developing a strategy to meet the panel's remaining recommendations that are within our jurisdiction," said Carol Crowfoot, vice president of the Regulatory Operations and Economics Branch. "This includes strategies to reduce emergency flaring and fugitive emissions and to increase gas conservation in the Peace River area."

The AER is also exploring opportunities with the Government of Alberta to establish and expand a regional air quality monitoring program in the Peace River region.

We're working on long-term strategies to reduce flaring, venting, and incineration and to increase gas conservation in Alberta. We will continue to find ways to improve our approach to addressing air emissions and protecting the environment while ensuring the conservation of Alberta's oil and gas resources.



our priorities – effective

effective

Strengthen risk-based regulation

Alberta's energy resources provide economic benefits for all Albertans, and the AER regulates development in a way that reduces potential risks and ensures that Albertans receive the greatest possible economic benefit. We also protect Albertans from the risk of financial liability associated with aging oil and gas infrastructure, especially if companies fail.

To do this, we must be effective and focus on risk-based regulation. Risk-based regulation means that regulatory activities are prioritized so that the most significant risks receive the greatest attention. Put simply, the higher the risk, the stricter our requirements.

It's all about the effective management of our energy resources on behalf of Albertans — the owners of that resource. It's about understanding our resources — where they are, how much we have — and how to ensure they are developed so as to optimize benefits to Albertans.

To become a more effective regulator, the AER will continue to put our risk-based approach into action. We will focus on projects that

- › reduce risks to public safety and the environment,
- › limit the financial risks to Albertans,
- › effectively manage resource conservation, and
- › improve industry performance.

These risk-based projects will include reservoir containment, improving pipeline safety, and the Inactive Well Compliance Program.

PROJECT 3 Reservoir Containment

We regularly assess our requirements to determine whether they are best suited to respond to potential risks in energy resource development.

For example, earlier this year, the AER responded to a potential risk at certain steam-assisted gravity drainage (SAGD) operations by establishing specific requirements for these projects at shallow depths. SAGD is an in situ technique used to produce bitumen by injecting steam into an underground oil sands reservoir to separate the sand and the bitumen, which is then produced.

While SAGD production has been practised for years, more and more projects are being proposed in areas where oil sands deposits are at shallow depths. The AER is concerned that at shallower depths, steam, bitumen, or other fluids might escape the reservoir and reach the surface.

The AER feels that the potential risks involved in more complex shallow projects require further technical review to ensure that we have the best possible regulatory requirements in place.

We are now working on that technical review, which will include stakeholder consultation. The result could include new rules and requirements that address potential risks and ensure that development using this method is safe and environmentally responsible.

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PROJECT] Improvements in Pipeline Safety

Pipeline safety has improved over the past 20 years. In fact, pipeline incidents have fallen from 2.1 incidents per 1000 km of pipeline in 2008 to 1.4 incidents per 1000 km in 2013.* This is good news, but more can be done.

The AER recognizes that pipeline safety is a top concern for Albertans and will work to further reduce the rate of pipeline incidents across the province. We'll do that by

- › focusing inspections on pipelines at major water crossings and
- › improving integrity programs as Alberta's pipeline inventory continues to grow.

* The AER requires pipeline operators to report ALL pipeline incidents, including breaks, test failures, and external contact with the pipeline – regardless of whether there is an actual leak.



PROJECT] Inactive Well Compliance Program

The AER will ensure that all high-risk inactive wells comply with regulatory requirements so that they may be safely suspended. The Inactive Well Compliance Program will offer innovative solutions for well inventory management while addressing the root causes of noncompliance.

We will accomplish this by creating

- › a robust compliance monitoring and management system;
- › a plan to bring inactive wells into compliance;
- › a reduction in liability, improved well integrity, and clear and consistent expectations for industry; and
- › a clear plan for enforcement.

Performance measures and targets



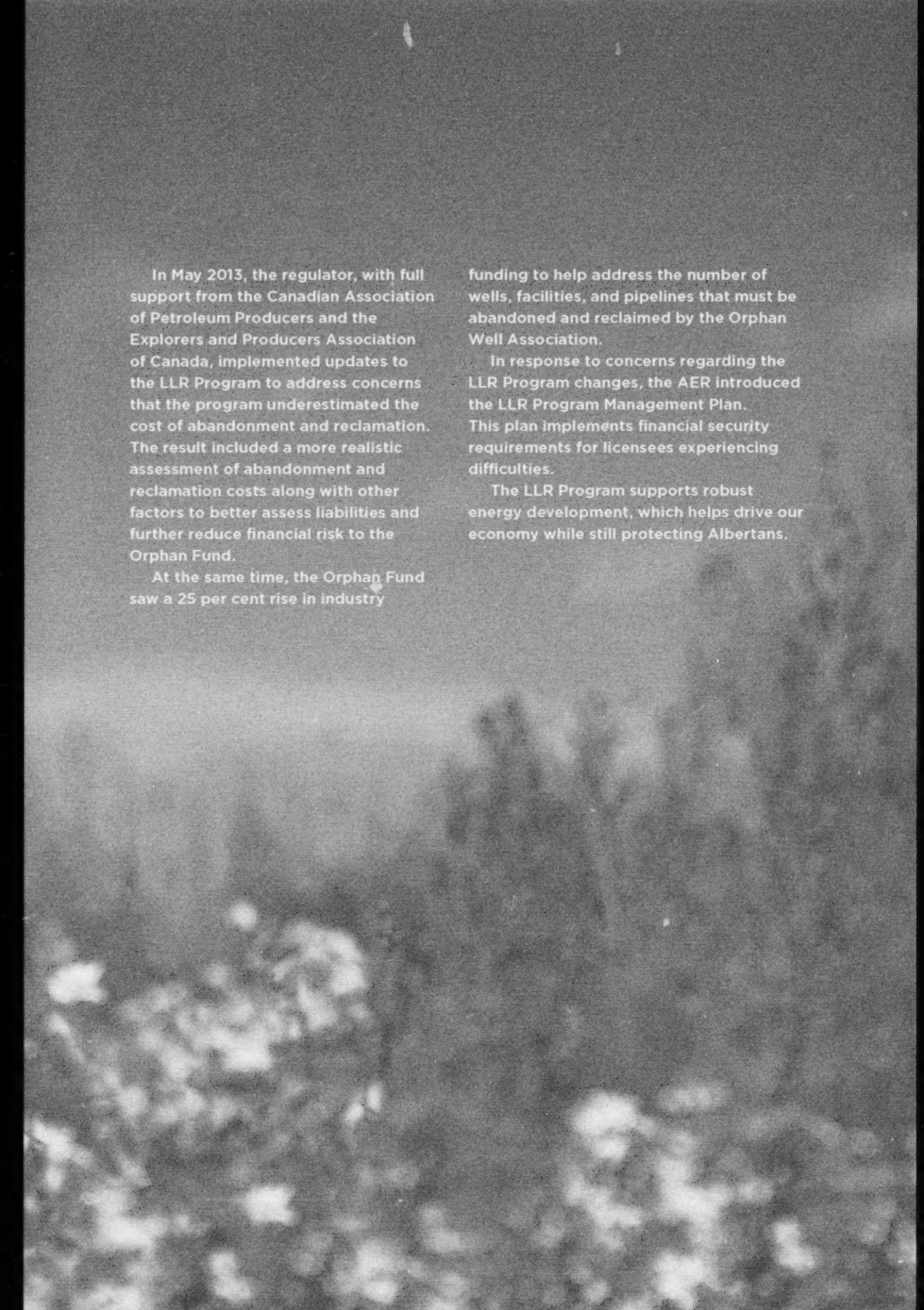
Effectively managing financial risk

Created in 2002, the AER's Licensee Liability Rating (LLR) Program protects Albertans from paying the costs to abandon and reclaim orphan wells, facilities, and pipelines arising from defunct licensees. It also minimizes the financial risk to the Orphan Fund, which is funded by the energy industry and pays for abandonment and reclamation when the licensee is unable to do the work.

Using an asset-to-liability calculation, the AER evaluates licensees each month. If a licensee's liabilities exceed its assets, its liability management rating (LMR) will fall. If the LMR falls

below an established level, the AER will request a security deposit for the difference. If a licensee does abandonment and reclamation work, it can improve its LMR, which may reduce the required security deposit.

If a licensee becomes defunct, the Orphan Fund, administered by the Orphan Well Association, pays the costs to suspend, abandon, remediate, and reclaim a well, facility, or pipeline in the LLR Program. The LLR Program ensures this cost is not transferred to Albertans. Financial security collected by the LLR Program is used to reduce the costs to the Orphan Well Association.



In May 2013, the regulator, with full support from the Canadian Association of Petroleum Producers and the Explorers and Producers Association of Canada, implemented updates to the LLR Program to address concerns that the program underestimated the cost of abandonment and reclamation. The result included a more realistic assessment of abandonment and reclamation costs along with other factors to better assess liabilities and further reduce financial risk to the Orphan Fund.

At the same time, the Orphan Fund saw a 25 per cent rise in industry

funding to help address the number of wells, facilities, and pipelines that must be abandoned and reclaimed by the Orphan Well Association.

In response to concerns regarding the LLR Program changes, the AER introduced the LLR Program Management Plan. This plan implements financial security requirements for licensees experiencing difficulties.

The LLR Program supports robust energy development, which helps drive our economy while still protecting Albertans.

our priorities – efficient

efficient

**Transform Alberta's energy
regulatory system to
improve efficiency**

When the Government of Alberta initiated the Regulatory Enhancement Project, one of its main goals was to improve Alberta's competitive advantage. One way to accomplish this is to make Alberta's regulatory system as efficient as possible.

We believe that transforming the regulatory system will reduce duplication, resulting in more efficient processes and ensuring that the regulator intervenes to minimize unacceptable risks. Reduced costs, greater certainty, and clearer processes will benefit landowners, industry, and the public. At the same time, regular and open reporting on our activities and results will demonstrate our performance.

"Efficient" means more than just cutting the cost of regulation or saving time. Efficient means reducing duplication in our system, changing our processes to improve our ability to get the work done, and ensuring that we only intervene to the level necessary. For example, making sure that our data collection policies focus on gathering information we need to do our job as opposed to gathering outdated information or duplicate information because "that's how it has always been done."

Achieving efficiencies will not be easy. After decades of multiple regulators overseeing energy resource development, Alberta's regulatory system has grown to be very complicated as new rules have been added over time.

The AER ensures that unnecessary costs in our system are not economic obstacles to future development. Our goal is to design a simpler regulatory system — one that protects the public and the environment, and improves performance at minimum cost.

The AER will achieve excellence in efficiency without sacrificing excellence in being an effective and protective regulator.

PROJECT » Continuous Improvement of Operations

The AER is responding to concerns about the effectiveness, efficiency, and transparency of regulatory processes and requirements by remaining true to our promise to provide safe, efficient, orderly, and environmentally responsible regulation of Alberta's energy resource sector. This will be achieved by

- » enhancing how we process applications and conduct surveillance operations,
- » establishing a continuous improvement process,
- » eliminating redundancies and improving processes,
- » setting clear expectations and meeting them, and
- » using a risk-based approach to conducting business.

PROJECT » Regulatory Simplification Project


Effective regulation means ensuring that all regulatory requirements are necessary, accessible, easy to understand, and enforceable. It means ensuring that all requirements clearly add value. This project will identify outdated, redundant, unnecessary, and confusing or contradictory requirements and eliminate or simplify them.

The AER will

- » inventory all regulatory requirements,
- » align strategic outcomes with each requirement,
- » reduce/eliminate duplication and inconsistencies, and
- » consolidate our regulatory requirements.

Performance measures and targets

Measure	Measure
<i>Regulatory process efficiencies</i>	<i>Relevant regulatory requirements</i>
Target	Target
<i>\$60 million in verified cost savings from efficiency initiatives in the first year</i>	<i>Complete a full regulatory review to identify and execute opportunities for consolidation and simplification</i>



A new approach to public lands

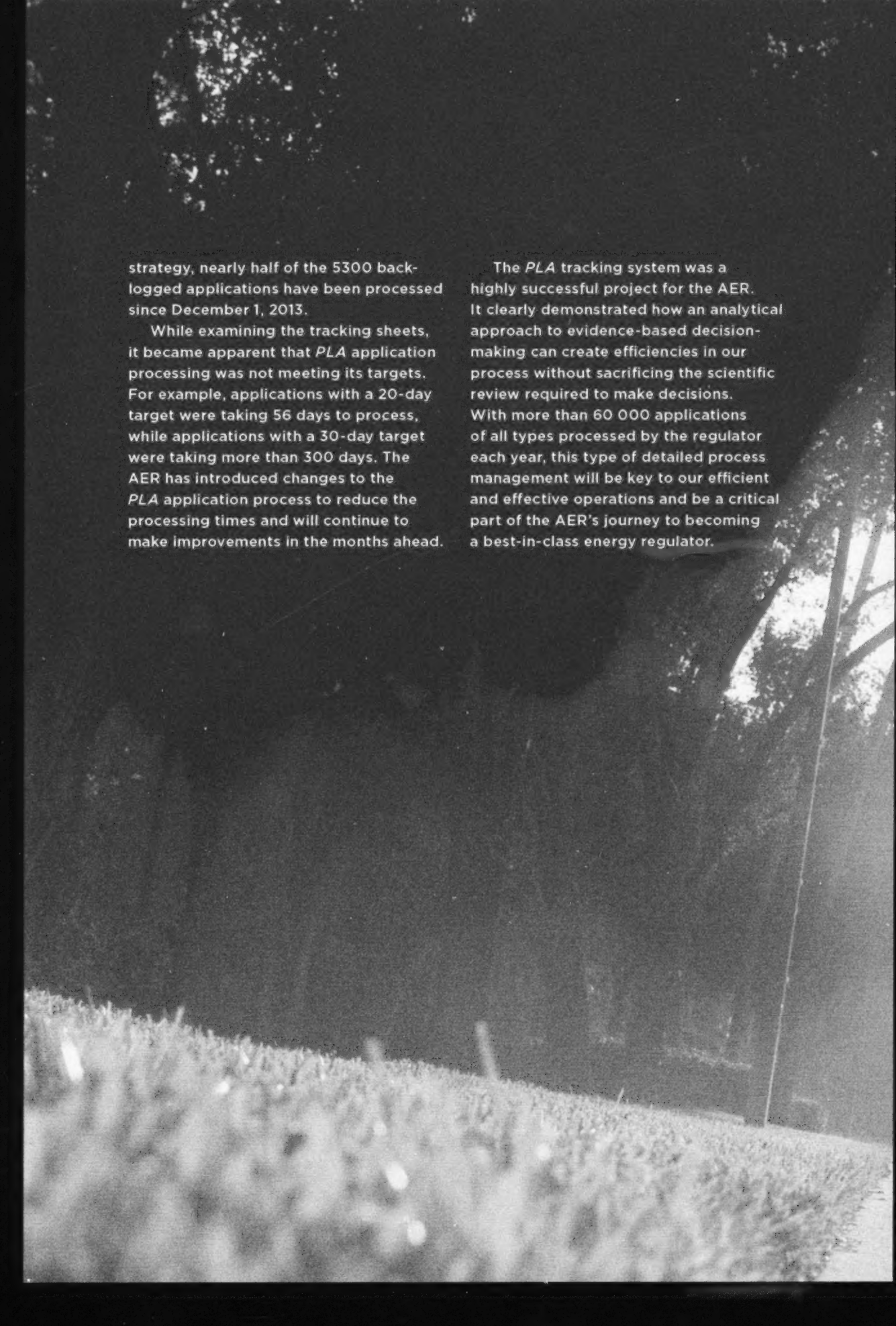
On November 30, 2013, the AER assumed responsibility for the *Public Lands Act (PLA)* as it relates to energy resource development. The AER is now responsible for issuing, amending, maintaining, and inspecting all land-use dispositions and authorizations for energy activities.

With the arrival of the new applications associated with the *PLA*, AER staff had to determine how many applications were being processed or waiting to be processed. What they discovered was daunting — a backlog of thousands of *PLA* applications, with little detailed information about the applications themselves.

This backlog coincided with the winter drilling season, the busiest time of year for energy operators, who continued to submit new applications on top of the existing backlog.

AER staff asked operators to submit their top 10 priorities for processing; no other applications were accepted until the priority applications were completed. This way, priority applications for drilling operations on public land were processed.

At the same time, the AER used analytics and detailed tracking sheets to assess the remaining applications, giving staff a clearer picture of the scope of work required. By using this



strategy, nearly half of the 5300 back-logged applications have been processed since December 1, 2013.

While examining the tracking sheets, it became apparent that *PLA* application processing was not meeting its targets. For example, applications with a 20-day target were taking 56 days to process, while applications with a 30-day target were taking more than 300 days. The AER has introduced changes to the *PLA* application process to reduce the processing times and will continue to make improvements in the months ahead.

The *PLA* tracking system was a highly successful project for the AER. It clearly demonstrated how an analytical approach to evidence-based decision-making can create efficiencies in our process without sacrificing the scientific review required to make decisions. With more than 60 000 applications of all types processed by the regulator each year, this type of detailed process management will be key to our efficient and effective operations and be a critical part of the AER's journey to becoming a best-in-class energy regulator.

our priorities – credible

credible

**Increase trust and confidence
in how energy is developed
in Alberta**

Being a best-in-class regulator means more than providing best-in-class regulation. It means we must ensure that all of our stakeholders are confident about how energy development is regulated in Alberta.

At the AER we know that doing our job and doing it well is important.

We know that the development of Alberta's oil and gas resources attracts international attention. The fact is, the work we do is of interest to people across North America and beyond, as energy development continues to be a source of worldwide debate.

We also know we must do more than simply regulate well. We have a responsibility to share Alberta's 76-year tradition of strong regulatory oversight of energy development — to tell our story and build relationships with our stakeholders. To be best in class, we must

- › report on the results of our work,
- › be open to discussing issues of concern to our stakeholders,
- › share information about the work that we do, and
- › work toward a common definition of what is meant by "best in class."

To do that, we'll engage stakeholders throughout Alberta, across Canada, and beyond to assess what defines best in class and to determine how the AER will meet that standard.

Here at home we'll also improve engagement with stakeholders, raise awareness of our role in energy resource regulation, increase transparency and accountability, and provide more education about energy development. Our strategic focus will include being best in class and sharing Alberta's regulatory story.

PROJECT » Best-in-Class Project

Alberta has a 76-year tradition of strong energy regulation, but we know there is more that can be accomplished. The development of Alberta's energy resources attracts international attention. We operate on the world stage.

It's not enough for the AER to declare itself a best-in-class regulator. We must define what that means and discuss with our stakeholders here in Alberta and beyond what qualities a best-in-class regulator demonstrates and what it would take for the AER to meet that standard.

The best-in-class project will

- » provide a definition of "best in class" and a method for measuring the performance of best-in-class regulators;
- » engage experts, academics, regulators, and think tanks throughout Alberta, Canada, and internationally; and
- » build international relationships by sharing differing perspectives on energy development with a focus on strategy, organizational design, the role regulatory bodies play in society, and how the best regulators communicate, share information, and build partnerships.

At the end of the day, we will have a definition of what it means to be best in class that will lead our efforts in the years ahead — one that our stakeholders helped to develop and confirm.

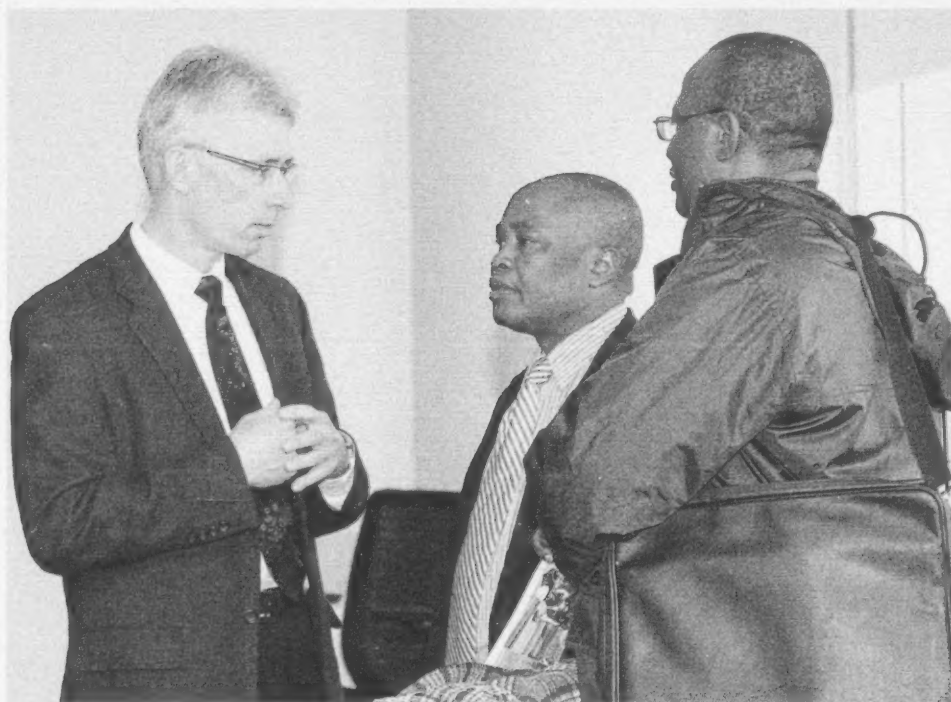
*Our strategic focus
will include being best
in class and sharing
Alberta's regulatory story.*

PROJECT » Sharing Alberta's Story

The AER welcomed 24 foreign delegations since June 2013. Government officials, industry representatives, and regulators from around the world travel to Alberta to learn about how we regulate the province's energy resource industry. In the coming months and years, we'll expand that network, reaching out to provincial and federal counterparts to share information, work together on common goals, and build formal partnerships that improve our ability to regulate as we learn from each other.

We'll share information and expertise formally by forming partnerships with other regulators and informally by participating in research projects, conferences, and public education programs.

Recognizing that our energy development activities attract world-wide attention, we'll work to better inform interested parties across the globe about the AER and how we protect public safety and the environment through our regulatory requirements and commitment to ensuring industry compliance.



PROJECT » Building Awareness

In the past year, the AER has made it easier for Albertans to learn about and have a say in energy resource development activities around the province. We've been building awareness by

- › posting all applications submitted to the AER online, including applications for oil and gas wells, pipelines, coal mines, oil sands developments (both mines and in situ), and facilities;
- › publishing decisions made on applications online, whether they're approved or denied;
- › reviewing and responding to every statement of concern filed by anyone who believes they may be directly and adversely affected by an application;
- › offering live streamed audio of public hearings (when technically and logistically possible) so Albertans can listen to the proceeding from anywhere; and
- › responding to hundreds of calls, e-mails, and other requests for information as well as participating in community meetings.

We are committed to making sure that Albertans know what the AER does and understand who to contact when they have questions or concerns. Through face-to-face meetings, social media, print materials, and community engagements, we will continue to connect with Albertans and encourage them to connect with us.

Performance measures and targets

Measure
Percentage of Albertans confident that oil and gas development is occurring responsibly

Target
10% increase in awareness of the AER and its role in regulating energy development in Alberta

Measure
Recommendations for best-in-class performance are developed through stakeholder collaboration

Target
Completion and release of recommendations in 2015

Measure
Stakeholder rating of AER performance in key areas of concern

Target
10% increase in positive perceptions/rankings of AER performance

Connecting to Albertans with social media

The AER uses a variety of communications tools to interact with our stakeholders. Our publications, presentations, online content, and social media tools help inform, explain, and clarify how the AER carries out our regulatory responsibilities across the province.

TWITTER – @AER_news was launched on June 17, 2013, and we have been using Twitter to update our over 900 (and growing!) followers on AER news, projects, and new regulatory requirements. Our Twitter presence allows for real-time, two-way communication with our stakeholders.

LINKEDIN – We're recruiting new staff and sharing information on important news and regulatory changes with more than 6200 connections, including employees, interested followers, energy experts, and other LinkedIn users.

YOUTUBE – Our channel, ABEnergyRegulator, provides videos that explain the energy industry and demonstrate how we ensure that energy development is safe, efficient, orderly, and environmentally responsible. The AER YouTube channel features industry presentations, animations, and videos on technical issues.



AER BLOG – Launched on April 1, the blog features monthly stories by AER employees addressing topics of interest to our stakeholders. In addition to the blog, we post content on aer.ca, including publications such as EnerFAQs, fact sheets, bulletins, and statistical reports to update Albertans about energy development activities.

AUDIOCASTS – We've recently started providing live audio streams of public hearings, where technically possible. Although all AER hearings are open to the public, the audio streams make it possible for those who can't attend a hearing to follow it online, and it reflects our commitment to improved information access and transparency.

Social media is helping the AER prepare for the next era in energy regulation, building new relationships with Albertans while telling our story on the world stage.



measuring our performance

» **To demonstrate the results of our work**, we must measure and report on our performance. For example, each year we process more than 60 000 applications, perform over 12 000 inspections, and issue hundreds of enforcement actions. While these numbers are important, it is what we achieve with this activity that is important to Albertans.

To truly be best in class and to deliver on all elements of our strategic plan, we must demonstrate results. How well did we protect public safety and the environment? How were we effective or efficient? How did we measure stakeholder awareness and perception?

We must measure the efficiency of our processes and the effectiveness of our requirements in meeting clear outcomes. We will measure industry performance — both industry as a whole and as individual companies.

Each strategic priority is paired with performance measures and targets that will help the AER define success and clearly demonstrate the results of our actions. We know that these are new targets, ones that we may refine in the weeks and months ahead as we meet with stakeholders throughout the province. In some cases, our measures and targets are clearly defined, while in other cases, the targets may be more closely linked to Government of Alberta policy outcomes and require additional discussion. In all cases, clear and measurable targets demonstrate that the AER is transparent, accountable, and driven by results.

We'll report regularly on our progress in meeting these targets, providing evidence where we have been successful and explaining if we have failed. Internal performance indicators will be used throughout the organization to provide us with early signs of our progress and with opportunities to change course if necessary.

These are not just performance measures and targets for the AER, but for industry and the province as a whole. Our ability to reduce pipeline incidents, increase compliance for abandoned wells, decrease the use of fresh water, find cost savings, and improve Albertans' confidence in the regulatory system are important results for all stakeholders.

Clear and measurable targets demonstrate that the AER is transparent, accountable, and driven by results.

» **A plan is only as solid as its execution.** Now that the AER board of directors has approved the strategic plan, we are working with stakeholders and employees to refine the projects that will, along with our operating plans, deliver on our key priorities.

The success of our strategic plan depends on a corporate operating plan that delivers the key projects under our strategic priorities, as well as critical day-to-day functions that support all the AER's work. This includes information technology, human resources, change-management initiatives, leadership development, media and public awareness programs, strong financial management, and a framework for continuous improvement.

It's about our people

Our people are our most important element in successfully delivering our strategic plan and achieving our vision. The AER prides itself on employing knowledgeable, skilled, and talented people who take pride in their work and go the extra mile to uphold our mandate.

When all employees work towards shared goals, results are achieved more rapidly. That's why it is vital that every section, division, branch, and employee is focused on making their own unique contribution to the organization's goals. No one person, team, or project can achieve results on their own — we need the work, dedication, and ownership of the entire organization.

Focusing on our strategic priorities and outcomes is important to our success as we manage the day-to-day work of the AER while transforming how we do business.

To succeed, we must ensure that we possess the tools to do our jobs with confidence and skill.

We will provide our employees with opportunities to develop the skills needed to execute the elements of our strategic plan, such as

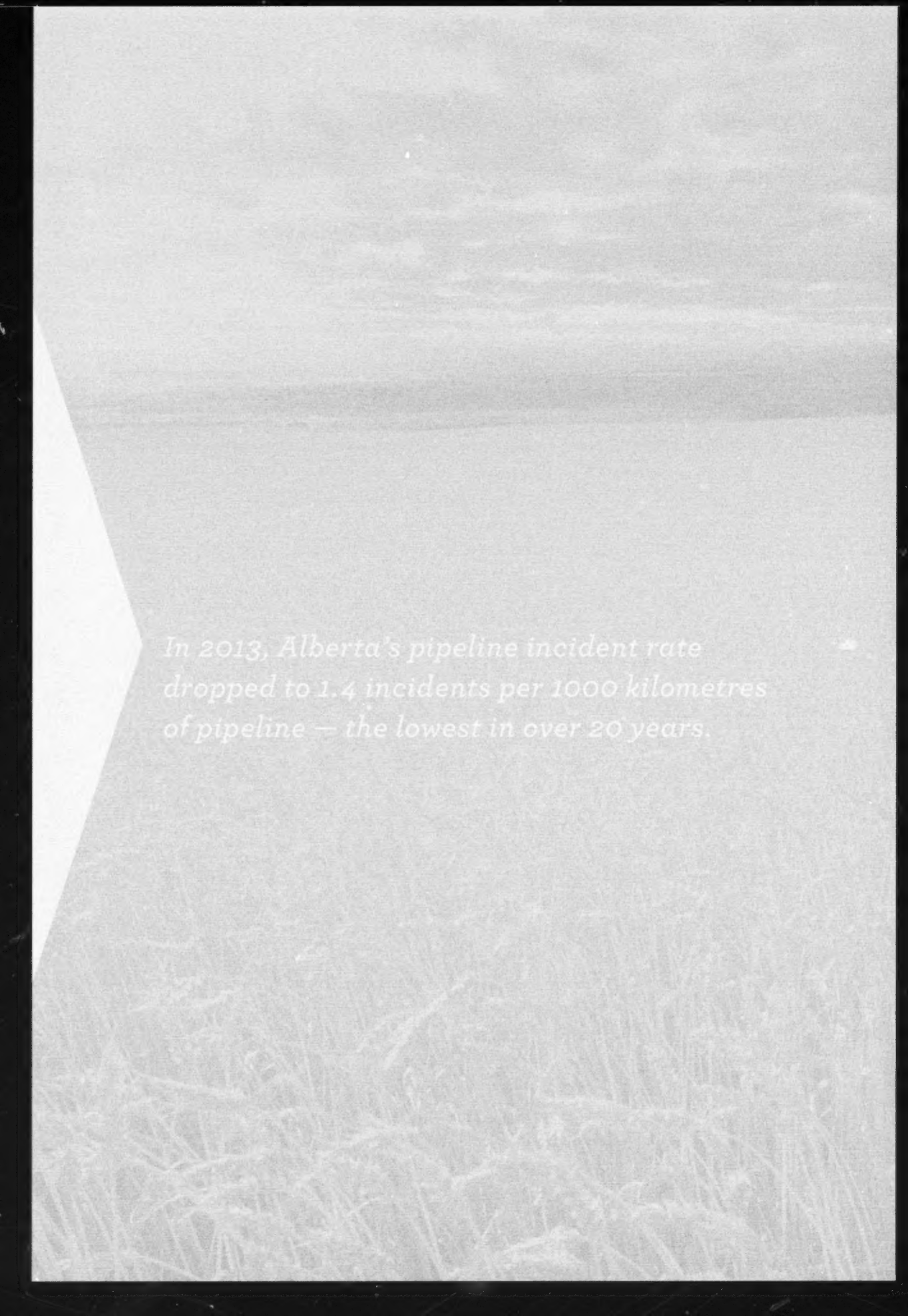
- » performance measurement,
- » project management,
- » business process design, and
- » continuous improvement.

Since last June, AER employees have made tremendous progress constructing a regulator that will live up to its mandate to provide for the safe, efficient, orderly, and environmentally responsible development of Alberta's energy resources. Working together, we will realize our vision of becoming that best-in-class organization to regulate our world-class resources for the benefit of all Albertans.





OPERATIONAL OVERVIEW



*In 2013, Alberta's pipeline incident rate
dropped to 1.4 incidents per 1000 kilometres
of pipeline — the lowest in over 20 years.*

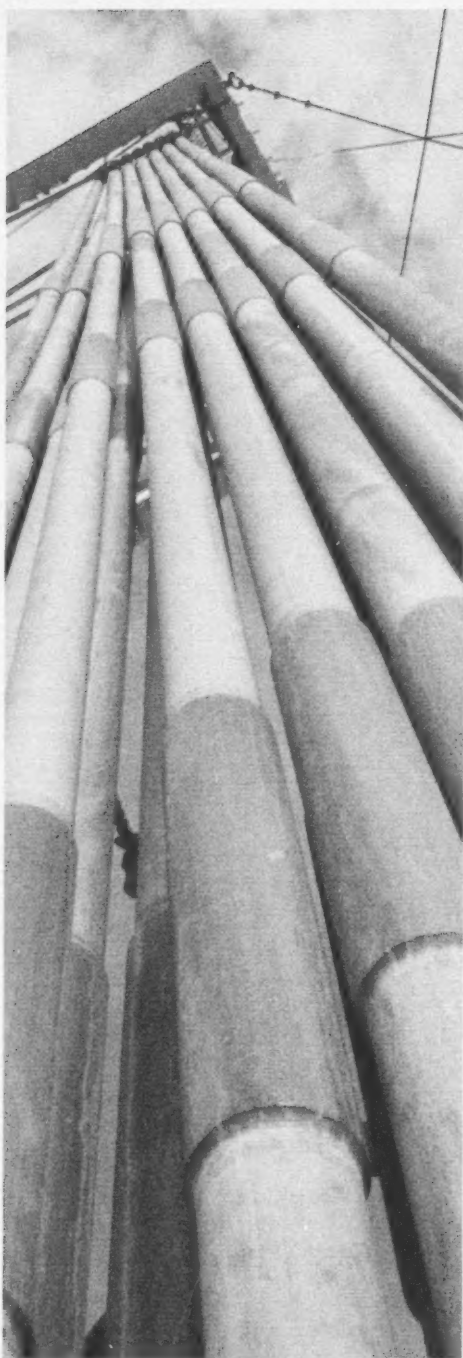
Operational Overview

» **As the AER was launched** and took on new responsibilities, a new mandate, and a new vision, we needed a new way to do business. Part of that transformation included restructuring our organization to ensure that we can effectively carry out all of our responsibilities, align our actions with AER-wide goals, and deliver measurable and meaningful results to our stakeholders.

To do that we created one organization with one leadership team working towards one vision, and moved to a new organizational structure. Our new structure improves our effectiveness by creating a more collaborative team that focuses our efforts on the organization's top priorities.

Rather than the traditional flat structure with vertical reporting and natural silos, the AER's organizational structure follows a matrix model that combines the functional areas of the organization with the key sector areas, all depending upon the foundational support provided by global functions such as Human Resources, Information Services, Administrative Services, and Law. These areas intersect, creating collaborative teams from both function and sector areas.

Under the new structure, the AER has been organized into divisions, branches and offices, groups, sections and teams. These divisions have achieved much since being established in the fall of 2013 and will continue to deliver results for Albertans in 2014.



In an organization responsible for regulating energy resource development, the Operations Division carries out the AER's core work across Alberta.

At the highest level, the Operations Division fulfills two main functions: it ensures that energy resource developments comply with AER regulatory requirements throughout their life cycles and that the AER's regulatory processes continually become more effective and efficient. Within this division,

- the Authorizations Branch processes applications for new energy resource developments;
- the Environment and Operational Performance Branch monitors ongoing operations through inspections, compliance evaluation, and emergency preparedness review;
- the Closure and Liability Branch oversees the end-of-life aspects of energy developments;
- the Mining Branch is responsible for both oil sands and coal mining;
- the In Situ Branch regulates the growing in situ oil sands developments; and
- the Oil and Gas Branch regulates conventional and unconventional energy resource developments, as well as pipelines and other infrastructure.

AER Operations staff work with industry to make sure that all regulatory requirements are followed.

Sector Branches and Function Branches

The Operations Division is organized into two types of branches: sector and function. Three sector branches, Oil and Gas, In Situ, and Mining, focus on the overall regulatory performance of the companies in each sector. Authorizations, Environment and Operational Performance, and Closure and Liability are function branches that focus on the efficient execution of regulatory processes. The sectors and functions work together, sharing resources to ensure that we are applying efficient, standard processes to the various sectors we regulate, and that our work is prioritized according to the most significant risks in each sector.

The First Year

The Operations Division successfully transitioned regulatory responsibilities from Alberta Environment and Sustainable Resource Development to create the single energy regulator. This included hiring and assimilating more than 235 new employees and implementing an organizational structure to deliver on the AER's broader regulatory strategy.

After assuming responsibility for *Public Lands Act* approvals in December 2013, the Authorizations Branch worked quickly to address industry's requirements for the winter drilling program. The Operations Division established a new procedure for rapidly processing priority applications, and it made other changes that have increased processing capacity for these types of applications by 50 per cent.

In February 2014, the AER created the Licensee Liability Rating (LLR) Program Management Plan to complement the existing LLR Program, which protects Albertans and the province's Orphan Fund from abandonment and reclamation costs for oil and gas wells, facilities, and pipelines. The LLR Program Management Plan aims to increase compliance by allowing companies to make payments over longer time frames. As of February 2014, 92 per cent of participating companies complied with the program and the AER's Oilfield Waste Liability Program.

Finally, the Operations Division established interim guidelines to ensure safe operation of new shallow steam-assisted gravity drainage for in situ oil sands developments.

Compliance and Enforcement

Operations staff use a risk-based inspection strategy. This means they design inspection programs to focus on energy resource developments determined to be higher risk or in areas where there have been recent incidents or public complaints.

In 2013, the AER conducted 12 367 initial inspections and investigations. As a result, 420 high-risk noncompliances were discovered, of which 217 were related to pipelines.

AER Operations staff work with industry to make sure that all our regulatory requirements are followed. To ensure that industry employees better understand regulatory requirements, Operations staff work to educate industry through targeted presentations and operator awareness sessions.



Navigating the AER

The Strategy and Regulatory Division navigated the AER through its first year with a focus on identifying and managing issues, risks, and opportunities, while ensuring that the organization maintained an integrated approach to regulatory development.

By providing the organization with scientific and fact-based information, the Strategy and Regulatory Division sets the path for the AER, keeping projects and initiatives aligned with our priorities. We do this through the work of three branches:

- › the Corporate Planning and Enterprise Projects Branch, which ensures that initiatives and projects align with the AER's mandate and vision;
- › the Regulatory Operations and Economics Branch, which implements practical operating procedures for regulatory development and reports on energy statistics; and
- › the Science and Evaluation Branch, which collects and reports on reservoir and play-level information and the impacts of energy development on environmental and social outcomes. The Alberta Geological Survey is part of this branch and provides the AER with scientific peer-reviewed research, mapping, and reporting on Alberta's geology, earth resources, geological hazards, and groundwater at the regional scale.

Achieving Goals

The Strategy and Regulatory Division oversaw the AER's transition as it became responsible for regulatory functions assumed from Alberta Environment and Sustainable Resource Development. This shift meant new responsibilities for existing staff and determining how these new functions would change how the AER operates.

By planning and collaborating, this division led the development of a new strategic plan for 2014-17. This plan outlines the AER's core work and establishes four key priorities that guide the AER in choosing projects and initiatives to support our vision.

The Strategy and Regulatory Division developed a new standard operating procedure for regulatory development. This document provides a new approach

to our regulatory work, establishing priorities for changing our regulatory requirements; ensures that the AER meets the province's regulatory needs with efficiency and purpose; and provides Albertans with best-in-class service that aligns with our mandate.

Anchoring the division's work are a risk-based regulatory model and innovative approaches to effectively and efficiently make the important decisions. Accurate data, skilled and knowledgeable staff, and a strong commitment to excellence fuel the division's work in helping the regulator capitalize on opportunities.

As the next year unfolds, the Strategy and Regulatory Division will continue to guide the AER with expertise and strong leadership as it regulates energy development in Alberta.

This division led the development of a new strategic plan for 2014-17. This plan outlines the AER's core work and establishes four key priorities that guide the AER in choosing projects and initiatives to support our vision.

stakeholder & government relations



The AER doesn't work in isolation:

landowners, First Nations and Métis, energy companies and industry associations, the Government of Alberta, nongovernment agencies, and environmental organizations all have a stake in our work. While our primary stakeholders are here in Alberta, we have relationships with groups across Canada, the United States, and around the world.

Each stakeholder has a unique perspective and interest in Alberta's energy resource development, which is why the AER established a new division dedicated to stakeholder engagement and relationship building: the Stakeholder and Government Relations Division (SGR).

Specific Stakeholder Focus

Regulating one of the world's largest energy resources attracts attention from across Canada, our U.S. neighbours, and our peers from around the globe. This national and international interest compels the AER to work with these groups to ensure that our role as a single regulator is clear and that their voices are heard. SGR also promotes knowledge sharing and best practices for energy development, while allowing the AER to learn from other jurisdictions.

The development of Alberta's energy resources attracts global attention.

SGR builds these mutually beneficial relationships through three groups:

- › Alberta Government Relations
- › Alberta Stakeholder Engagement
- › National and International Stakeholder and Government Relations

All three focus on specific stakeholder groups to ensure that the AER fulfills its commitment and promise to Albertans.

Engaging Through Change

After establishing the division and staffing it with strong leaders and experienced people, SGR immediately implemented engagement plans for the transition to the single regulator, including

- › hosting 10 well-attended industry information sessions;
- › meeting with over 20 national, international, and provincial delegations;
- › co-hosting a global two-day conference with the International Energy Agency; and
- › developing high-profile memorandums of understanding with the British Columbia Oil and Gas Commission and the Government of the Northwest Territories.

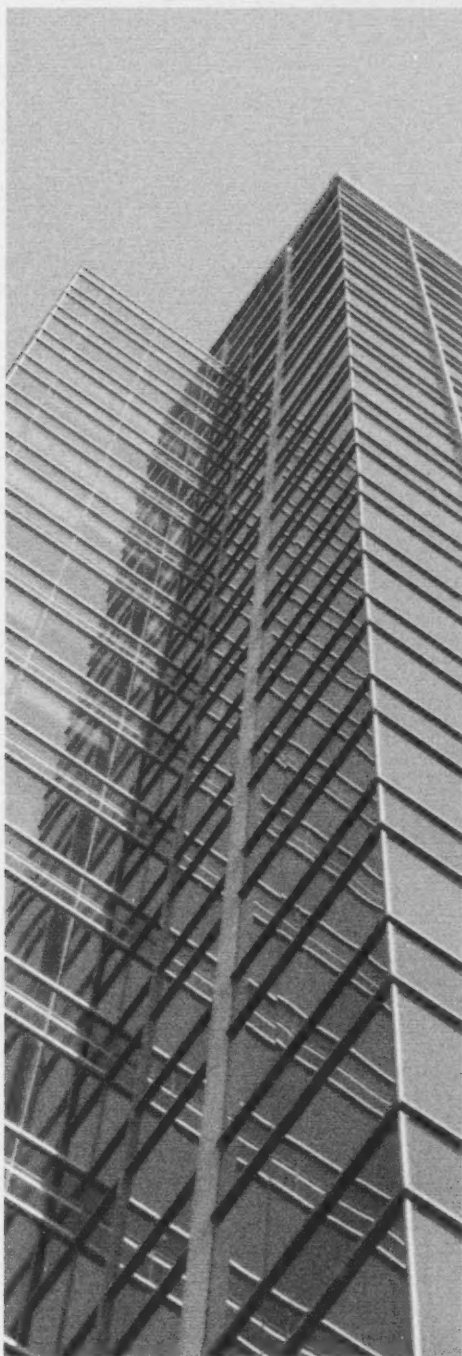
The division also fostered existing, and developed new, relationships with key Government of Alberta partners in 2013:

- › Alberta Environment and Sustainable Resource Development
- › Alberta Energy
- › The Policy Management Office
- › Aboriginal Relations / Aboriginal Consultation Office
- › International and Intergovernmental Relations
- › Health
- › Municipal Affairs

This work involved clarifying roles, accountabilities, and processes to support integrated policy development and delivery.

Engaging from the Inside Out

SGR also recognizes the importance of working internally to support other AER divisions and working together to achieve the organization's goals and vision. Since it was established, SGR has provided advice and information to support the development of regulatory requirements and initiatives, as well as providing alternative dispute resolution support on energy development applications.

**Regulating Alberta's energy resources**

is what the AER does, but without the people, infrastructure, and information for support, our work could not be done. The AER's Corporate Services Division focuses on the crucial components of how the organization functions, the people who power the AER engine, and the information it collects and distributes to Albertans.

The division includes technology, data, workplace services, finance, administration, and human resources. These are elements vital to any organization because they control the internal workings, enabling employees to do their jobs and allowing business to take place.

Supplying and Managing Resources

Through all phases of the AER's transition, the Corporate Services Division supported the core business by ensuring that time-lines were met and resources were effectively managed.

The entire AER is supported by the expertise, advice, and services provided by the six branches of the Corporate Services Division:

- › Information Services
- › Human Resources
- › Finance
- › Administrative and Workplace Services
- › Information Management
- › Internal Audit

Before, during, and after the June 2013 launch, Corporate Services staff worked full out. With an influx of new staff supporting the AER's new functions, roles, and responsibilities, the division was bustling with the hiring of more than 450 new staff (to support the transition to the single regulator and as part of regular operations), maintaining infrastructure, and managing the regulator's new industry-funded model.

The transition also required that the division

- › implement and provide significant change-management support;
- › execute a short-term plan for staff placement;
- › offer more than 400 professional development courses and learning opportunities to staff;
- › maintain excellent health and safety programs;
- › oversee the process to transfer, share, and store ESRD records;
- › implement a financial administrative system for the *Public Lands Act*, the *Mines and Minerals Act*, and the Mine Financial Security Program;
- › streamline revenues charged to industry and improve work processes;
- › update documents and forms to align with the AER's new GST status, and inform vendors of this change;
- › participate in the Government of Alberta's results-based budgeting process under the Resource Management and Environmental Stewardship Line of Business; and
- › promote waste reduction by implementing an electronic submission form and requirements in directives.

Delivering for our Stakeholders

Recognizing the importance of providing our stakeholders with timely and accurate information, the division used the regulator's launch year to develop better ways of accessing information. Through tools such as the Private Surface Agreements Registry, Public Notice of Application, and Publication of Decision, the division works to deliver on the AER's promise of transparency.

The AER's Corporate Services Division focuses on the crucial components of how the organization functions, the people who power the AER engine, and the information it collects and distributes to Albertans.

law branch

Creating a new entity to regulate the province's energy resources takes expert knowledge of legislation, the ability to create strong regulations, and a dedicated team of lawyers who work with precision to help build and support the new AER.

The AER's Law Branch played a key role in creating the AER. Working closely with our government partners, the branch was actively involved in drafting the *Responsible Energy Development Act* — the statute that created the AER.

As we transitioned into a full life-cycle regulator over the last 12 months, Law's input was critical in developing the regulations needed to support the responsibilities transferred from the Government of Alberta.

*Law's input
was critical in
developing the
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to support the
responsibilities
transferred from
the Government
of Alberta.*

Since June 2013, the Law Branch has

- › developed AER policy under the *Public Interest Disclosure (Whistleblower Protection) Act*,
- › created the proposed mandate and roles document under the province's *Alberta Public Agencies Governance Act*,
- › provided legal advice on proceedings, and
- › advised on regulatory functions, hearings, and appeals.

Outside of legislation and regulation development, the branch provides legal, strategic, and corporate governance advice to all of the AER's divisions, hearing commissioners, and board of directors, while representing the AER before the courts and acting as the corporate secretary.

Branches throughout the AER also benefit from Law's counsel on issues such as employment law and reviewing leases and contracts.

Building Alberta's new regulator

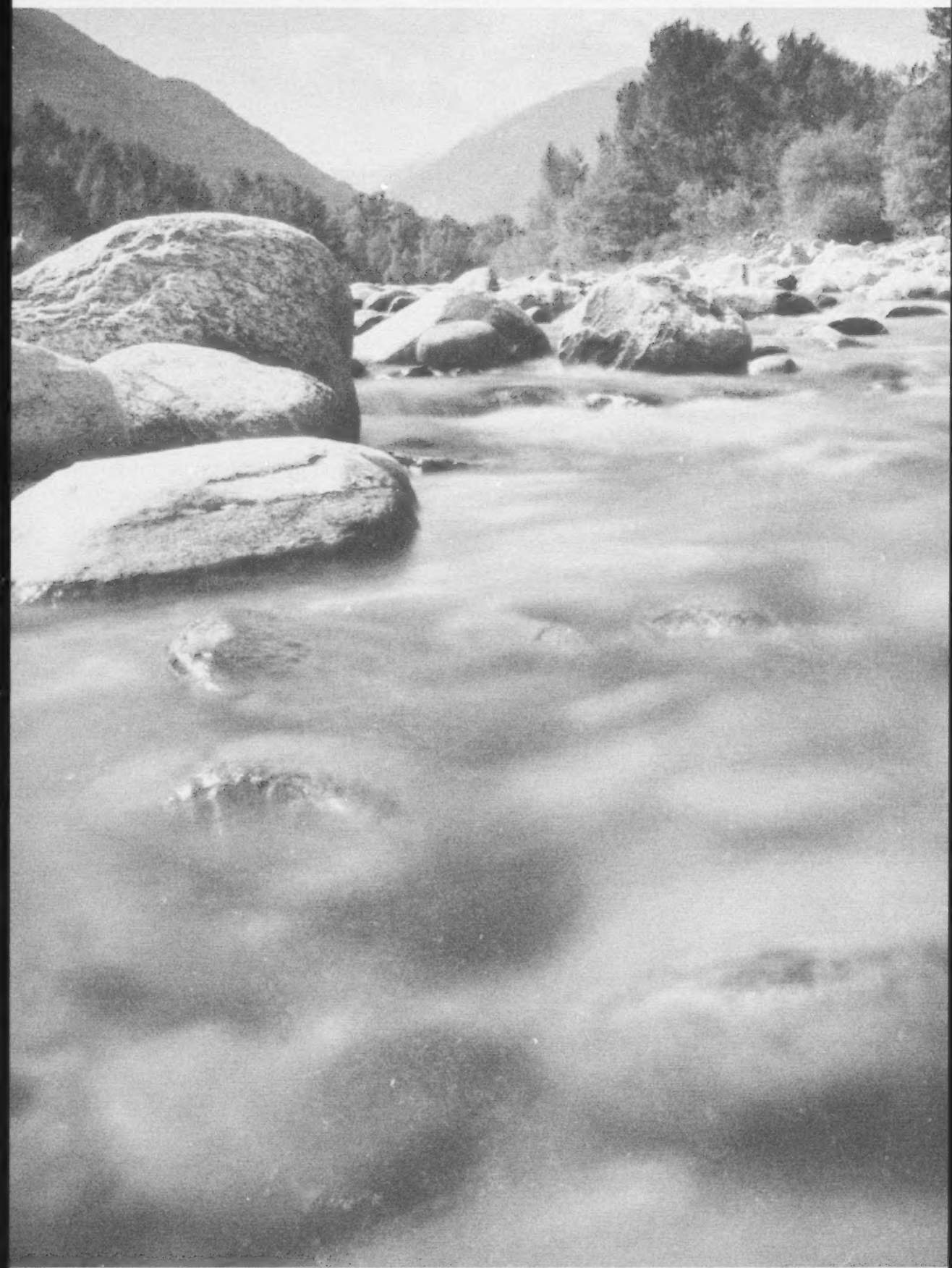
required tremendous communications efforts. From a new logo and mandate, to new products to explain who we are, what we do, and how our work benefits Albertans, the Office of Public Affairs (OPA) supported the AER in its launch and transition to the single regulator.

OPA provides effective communications advice and support to the AER by offering a wide range of services to the organization, including media relations and crisis communications, strategic planning and advice, internal and corporate communications, editing, graphic design, digital media, and web services.

Like every division of the AER, OPA was committed to the launch and transition of the new regulator. With a focus on ensuring that stakeholders had access to information, providing clear, accurate communications products, and supporting all aspects of each phase of implementation, OPA supported the AER by

- › developing and launching a new logo, brand, and visual identity;
- › designing and launching a new website, including support for public notice of applications, publication of decisions, and the online incident-reporting tool;
- › supporting change management with internal communications planning and advice;
- › supporting the Executive Leadership Team in all aspects of external and internal communications;
- › creating award-winning multimedia products, including video, audio, a new website, and new employee intranet;
- › executing the launch and opening of all AER locations across Alberta;
- › supporting the new vision and strategic plan with external and internal communications;
- › conducting public opinion research and media monitoring to provide insight and advice on stakeholder opinion; and
- › coordinating emergency response, including flood response and incident communications.

OPA continues to support the AER by providing strategic communications and advice on AER operations and ensuring that stakeholders have access to accurate, timely, clear information about energy development in Alberta. As the AER turns its focus to reaching our vision, OPA will work with all divisions and branches to deliver on our priorities and meet our targets by 2017.





CORPORATE GOVERNANCE



*@AER_news posted 275 tweets,
including 42 photos and videos,
to over 900 followers since our launch.*

Corporate Governance

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» **How an organization is governed determines** how it carries out its daily business and how successful it is at achieving its goals. For this reason, corporate governance was a key consideration when the Alberta Energy Regulator was created in June 2013.

The AER's governance structure separates the corporate, operational, and governance responsibilities from adjudicative functions (hearings on energy applications). This is a significant change from the former Energy Resources Conservation Board (ERCB) model where these functions were combined. Through its revised model, the AER seeks to realize its full potential as the single regulator of Alberta's energy resource development, as well as gain the confidence of its many stakeholders.

Board of Directors

A chair heads the AER and leads a board of directors; none are involved in the AER's day-to-day operations or decisions. Rather, these directors set the general direction of the regulator's business affairs, including approval of the strategy and budget. The directors are also charged with approving regulatory change and setting performance expectations for the AER and its president and chief executive officer. In this way, the AER's board operates as a truly "corporate-style" board.

President and CEO

The president and CEO, who reports directly to the chair, is accountable for day-to-day operations, which include receiving and making decisions on applications, monitoring and investigating energy resource activities for compliance, and closure of energy developments, including remediation and reclamation.

Hearing Commissioners

Hearing commissioners are responsible for conducting all hearings into energy applications and regulatory appeals. Reporting to a chief hearing commissioner, they are independent adjudicators, operating free of political interference; their decisions may only be reviewed by the Court of Appeal of Alberta.

» Highlights

A key feature of the *Responsible Energy Development Act (REDA)*

is that it separates the adjudicative functions of the regulator (conducting hearings and issuing decisions on energy resource development) from the governance of an organization responsible for applying and enforcing the regulations. The AER's governance is through a board of directors that assumed responsibility in June 2013.

During our inaugural year, the AER took on responsibility of regulatory functions for energy resource development from the ERCB and the regulatory functions for public lands, geophysical work, and the protection of our air, land, and water from Alberta Environment and Sustainable Resource Development.

Achieving the objectives of a one-stop regulator required the board to meet frequently: 11 meetings between June 2013 and May 2014. The board addressed a number of administrative details during this period:

- » developing conflict of interest and whistleblower policies and terms of reference;
- » approving a strategic plan and budget, including introducing rules to adjust annual industry levies; and
- » holding board meetings across Alberta and using these occasions to meet with stakeholders and visit operating sites to learn more about the AER's regulatory responsibilities.

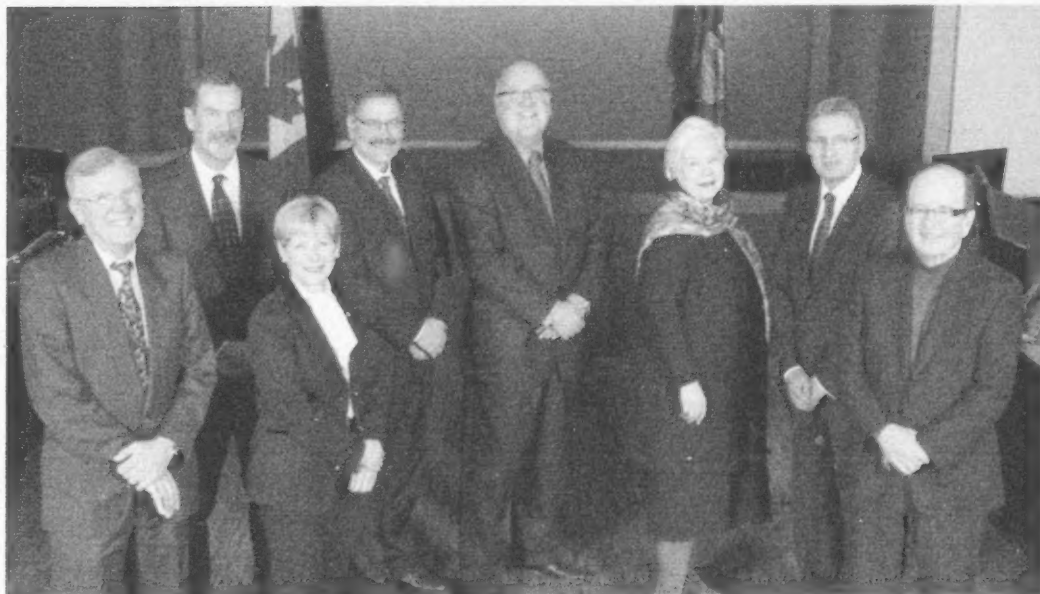
The board has four committees: Audit and Finance; Governance; Human Resources, Health and Safety; and Regulatory Review.

During the first year, the Audit and Finance Committee has focused on banking and credit facilities in addition to an ongoing review of financial statements and upgrades to financial and IT systems. The Governance Committee reviewed and modified the AER's bylaws and the terms of reference for each committee, reviewed performance reporting by other regulatory bodies to recommend the form of an annual report, and developed a board performance evaluation tool. The Human Resources, Health and Safety Committee has focused on employee turnover, safety statistics, the effectiveness of recruitment, the general approach to AER compensation and benefits, and compensation for senior management.

REDA clearly assigns responsibility for approving policy to the Alberta Department of Energy, and the application and enforcement of policy to the AER. The Regulatory Review Committee reviews recommendations for policy changes prior to submission to the board and thereafter the

Department of Energy. The Regulatory Review Committee also reviews and approves changes to AER procedures and the AER's extensive guidance documentation. One major policy recommendation approved by the Government of Alberta on the recommendation of the AER was regulation of odours and emissions from sites, which played a key role in AER's action on emissions in the Peace River area.

The board and its committees focus on oversight of the AER to ensure that the organization is focused on the key strategic objective: to be a protective, effective, efficient, and credible best-in-class regulator.



Peter C. Flynn, Ph.D., P.Eng
Governance Committee Chair

Cameron Bailey

Shelia O'Brien, C.M., B.A.
*Human Resources,
Health and Safety
Committee Chair*

Andy Neigel, RPF, B.Sc. Forestry

Gerard Protti, M.A., I.C.D.
Chair

Elizabeth (Liz) Dowdeswell, B.C., M.Sc.

Dr. David Chalack, D.V.M., I.C.D.

Fred Estlin, B. Admin., F.C.A.
*Audit and Finance
Committee Chair*

Committees are an important part of any board. In general, their role is to receive the reports and recommendations of management, provide information, make recommendations to the board for approval, and make decisions on behalf of the board in their areas of authority.

Governance Committee

Tim Plumptre, founder of the Institute on Governance, defines governance as "the process whereby societies and organizations make important decisions, determine whom they involve, and how they render account." The AER's Governance Committee works to embody this definition by setting processes to clarify how decisions are made. It helps the board of directors on governance matters affecting operations and on specific matters from the board of directors, the chair, or executive management.

Audit and Finance Committee

The Audit and Finance Committee helps and advises the board of directors with accounting, financial reporting, risk management, and auditing. Fulfilling an oversight role, this committee monitors, oversees, and makes recommendations to the board on

- › financial statements and other financial information,
- › the adequacy and effectiveness of the AER's systems of internal controls,
- › risk management,
- › audit functions, and
- › monitoring the development of the AER risk management system.

Regulatory Review Committee

This committee helps ensure that proposed AER regulatory instruments support and contribute to the AER's mandate and vision, are applied enterprise-wide, are consistent with the current regulatory and economic environment, and receive adequate feedback from AER staff and stakeholders. It also makes certain that these instruments are based on sound science, technical expertise, and engineering and economic principles, and that they can be supported legally. In addition, the committee helps determine applicable approvals required for regulatory instruments, such as the board of director approval, Government of Alberta approval, or both.

Human Resources, Health and Safety Committee

This committee monitors, oversees, and makes recommendations to the board on the AER's human resources management. It also advises on strategy and planning, compensation philosophy, workforce engagement, selection, remuneration, and performance assessment of the chief executive officer, and compensation and succession planning for senior executives (see page 89 for statements). This committee also oversees the AER's Occupational Health and Safety policies, practices, and performance to ensure that best-in-class standards are maintained.

The AER board of directors manages the AER's business and affairs by providing direction to management and taking other appropriate actions within its capacity and powers to fulfill its responsibilities as set out in the *Responsible Energy Development Act* and other enactments. According to the *General Bylaw of the Alberta Energy Regulator*, the board must meet at least four times per year.

Meeting Attendance

(June 2013–May 2014)

Director	Board Meetings Attended
Gerard Protti, Chair	11 of 11
Cameron Bailey	11 of 11
David Chalack	11 of 11
Elizabeth Dowdeswell	11 of 11
Fred Estlin	11 of 11
Peter Flynn	11 of 11
Andy Neigel	11 of 11
Sheila O'Brien	10 of 11

executive leadership team



Kim Blanchette
Vice President
Office of Public Affairs

Patricia Johnston
General Counsel
Executive Vice President
Law

Rick Brown
Executive Vice President
Corporate Services

Jim Ellis
President and CEO

Jennifer Steber
Executive Vice President
Stakeholder and Government
Relations

Kirk Bailey
Executive Vice President
Operations

Cat Hill
Executive Vice President
Strategy and Regulatory

The Alberta Energy Regulator president and CEO reports directly to the chair of the AER board of directors and is accountable for day-to-day operations, which include receiving and making decisions on applications, monitoring and investigating energy resource activities for compliance, and closure of energy developments, including remediation and reclamation.

Hearing commissioners represent a key part of the Alberta Energy Regulator's mandate by fulfilling its adjudicative functions.

The hearing commissioners conduct all of the AER's hearings into energy applications and regulatory appeals, and also carry out specially called inquiries, such as the Peace River proceeding into odours and emissions from heavy oil operations, held in January 2014. They are also involved in developing the organization's hearing procedures and rules. There are both full-time and part-time hearings commissioners; all report to a chief hearing commissioner who in turn reports to the AER's chair.

Hearing commissioners are independent adjudicators, operating free of political interference. Only the Court of Appeal of Alberta may review and overturn their decisions. They also function independently from the AER's operations staff.

Alex Bolton, P.Geo.,
*Chief Hearing Commissioner**

Cecilia Low, B.Sc., LL.B., LL.M.
(Full-time)

Christine Macken, B.A.
(Full-time)

Brad McManus, Q.C.
(Full-time)

Rob McManus, B.A., M.E. Des.
(Full-time)

Barbara McNeil, B.Sc., C.M.
(Full-time)

Terry Engen
(Part-time)

Heather Kennedy, B.Sc. (Hons.)
(Part-time)

John Lawson, MPA
(Part-time)

Jurgen Praugschas
(Part-time)

Lorne Ternes, LL.B.
(Part-time)

* Mr. A. Bolton was appointed chief hearing commissioner on May 14, 2014. Prior to that, Mr. B. McManus served as chief hearing commissioner.

Hearing Commissioner Activities

From the AER's launch on June 17, 2013, to the end of April 2014, AER hearing commissioners have held four oral hearings, two written hearings, and a public proceeding. It is important to note that six scheduled hearings were cancelled as the reasons for holding the hearing were resolved.

The AER has issued 17 decision reports for hearings and cancelled hearings, including two decision reports related to the Peace River proceeding. Three decision reports were for matters transitioned from the ERCB to the AER.

In addition, AER hearing commissioners will conduct alternative dispute resolution when a hearing or a regulatory appeal is to occur. Between June 2013 and April 2014, hearing commissioners participated in three alternative dispute resolution processes.





FINANCIAL STATEMENTS

A black and white photograph of an oil pumpjack in silhouette against a bright, hazy sky. The pumpjack is positioned on the left side of the frame, with its long walking beam and counterweight clearly visible. The ground is covered in a field of low-lying vegetation, possibly grass or small shrubs, which are also in silhouette. The overall tone is industrial and somewhat somber due to the monochrome palette.

Since the AER's launch, 24 foreign delegations have visited Alberta to learn how we regulate energy development.

Alberta Energy Regulator Financial Statements

For the year ended March 31, 2014

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Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedules to the Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Alberta Energy Regulator

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Energy Regulator, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Energy Regulator as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year ended March 31, 2014 in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
May 8, 2014
Edmonton, Alberta

STATEMENT OF OPERATIONS

Year Ended March 31 (in thousands)

	2014		2013
	Estimates (Schedule 3)	Actual	Actual
Revenues			
Industry levies and assessments	\$ 166,148	\$ 181,668	\$ 124,881
Provincial grant	-	36,300	54,543
Information, services and fees	9,259	7,431	6,994
Investment	2,500	1,023	895
	<u>177,907</u>	<u>226,422</u>	<u>187,313</u>
Expenses			
Energy regulation (Schedule 1)	170,857	208,310	173,726
Orphan abandonment (Note 4)	12,750	16,172	13,001
	<u>183,607</u>	<u>224,482</u>	<u>186,727</u>
Annual operating surplus (deficit)	<u>\$ (5,700)</u>	<u>\$ 1,940</u>	<u>\$ 586</u>

The accompanying notes and schedules are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at March 31 (in thousands)

	2014	2013
Assets		
Cash and cash equivalents (Note 5)	\$ 42,055	\$ 36,647
Security deposits (Note 6)	100,211	52,520
Accounts receivable	3,892	3,480
Prepaid expenses and other assets	9,660	10,091
Tangible capital assets (Note 7)	54,972	53,147
	<u>\$ 210,790</u>	<u>\$ 155,885</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 21,582	\$ 18,981
Grant payable to Orphan Well Association	10,750	8,972
Security deposits (Note 6)	100,211	52,520
Deferred revenue (Note 8)	2,971	1,485
Deferred lease incentives (Note 9)	23,535	24,157
Pension obligations (Note 10)	3,291	3,260
	<u>162,340</u>	<u>109,375</u>
Net Assets		
Net assets at beginning of year	46,510	45,924
Annual operating surplus	1,940	586
	<u>48,450</u>	<u>46,510</u>
	<u>\$ 210,790</u>	<u>\$ 155,885</u>

Contractual obligations and Contingent liabilities (Notes 11 and 13)
The accompanying notes and schedules are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended March 31 (in thousands)

	2014	2013
Operating transactions		
Annual operating surplus	\$ 1,940	\$ 586
Non-cash items included in net operating results		
Amortization of tangible capital assets (Note 7)	12,045	11,667
Loss on disposal of tangible capital assets	-	121
Change in pension obligations	31	16
Amortization of deferred lease incentives (Note 9)	(1,370)	(1,367)
	12,646	11,023
(Increase)/decrease in accounts receivable	(412)	772
Decrease/(increase) in prepaid expenses and other assets	431	(2,046)
Increase/(decrease) in accounts payable and accrued liabilities	2,601	(2,180)
Increase/(decrease) in grant payable to Orphan Well Association	1,778	(287)
Increase/(decrease) in deferred revenue	1,486	(38)
Additions to deferred lease incentives	748	-
Cash provided by operating transactions	19,278	7,244
Capital transactions		
Acquisition of tangible capital assets (Note 7)	(13,870)	(7,448)
Cash applied to capital transactions	(13,870)	(7,448)
Increase/(decrease) in cash and cash equivalents	5,408	(204)
Cash and cash equivalents at beginning of year	36,647	36,851
Cash and cash equivalents at end of year	\$ 42,055	\$ 36,647

The accompanying notes and schedules are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014 (in thousands)

Note 1 Authority and purpose

The Alberta Energy Regulator (AER) is an independent and quasi-judicial organization of the Government of Alberta. The AER operates under the Responsible Energy Development Act (REDA). The AER's mandate provides for the safe, efficient, orderly and environmentally responsible development of hydrocarbon resources over their entire life cycle. This includes the conservation and management of water, the disposition and management of public lands and protection of the environment.

Effective June 17, 2013, the AER was established to supersede the Energy Resources Conservation Board (ERCB). The AER is responsible for the regulatory functions of the ERCB as well as certain functions of Alberta Environment and Sustainable Resource Development (ESRD) that relate to public lands, water and the environment.

The 2013 comparative figures are those of the ERCB. The 2014 figures combine 77 days of ERCB operations from April 1, 2013 to June 16, 2013 with the balance of the fiscal year those of the AER.

Note 2 Summary of significant accounting policies and reporting practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

(a) Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which services have not been provided by year end is recorded as deferred revenue.

Government transfers

Transfers from the Government of Alberta are referred to as provincial grants.

Provincial grants, without terms for the use of the transfer, are recorded as revenue when the AER is eligible to receive the funds.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

(c) Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the AER are limited to financial claims, such as advances to and receivables from other organizations.

Tangible capital assets are recorded at historical cost and amortized over the estimated useful life of the assets using the following methods:

Leasehold improvements	Straight line
Furniture and equipment	Straight line
Computer hardware	Straight line
Computer software — purchased	Straight line
Computer software — developed	Declining balance

Work-in-progress, which includes developed computer software and leasehold improvements, is not amortized until a project is complete.

(d) Liabilities

Liabilities are recorded to the extent that they represent obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in a sacrifice of economic benefits in the future.

(e) Net assets

Net assets represent the difference between the carrying value of assets held by the AER and its liabilities.

PSAS requires a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The AER operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Note 2 Summary of significant accounting policies and reporting practices (continued)

(f) Valuation of financial assets and liabilities

The AER's financial assets and liabilities are generally measured as follows:

Financial Statement Component	Measurement
Cash and cash equivalents	Amortized Cost
Accounts receivable	Amortized Cost
Security deposits	Cost
Accounts payable and accrued liabilities	Cost
Grant payable to the Orphan Well Association	Cost

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, grant payable to the Orphan Well Association and security deposits are estimated to approximate their carrying values.

The AER has not designated any financial assets or liabilities in the fair value category and has not engaged in foreign currency transactions. The AER has no remeasurement gains or losses and consequently has not presented a statement of remeasurement gains and losses.

(g) Pension

Accrued benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels and retirement age of employees.

The expected return on plan assets is determined using market values of plan assets.

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 7 years.

Past service cost arising from plan amendments is accounted for in the period of the plan amendments.

Defined contribution plan accounting is applied to Government of Alberta multi-employer defined benefit pension plans as the AER has insufficient information to apply defined benefit plan accounting.

(h) Deferred lease incentives

Deferred lease incentives, consisting of leasehold improvement costs and reduced rent benefits, are amortized on a straight-line basis over the term of the lease.

(i) Future accounting changes

Liability for contaminated sites

In June 2010, the Public Sector Accounting Board issued an accounting standard, Liability for contaminated sites, effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The entity would recognize a liability related to the remediation of such contaminated sites subject to certain recognition criteria. Management is currently assessing the impact of this change in accounting standards on the financial statements effective the next fiscal period.

Note 3 Reorganization

Under the proclamation of portions of REDA in June 2013, the AER was created and assumed all responsibilities of the ERCB including all assets, liabilities, obligations, commitments and contingencies. In November 2013, additional portions of REDA were proclaimed transferring the public land and geophysical jurisdictions. The remaining portions of REDA were proclaimed in March 2014 which transferred all environmental and water jurisdictions. The transfer of jurisdiction from ESRD to the AER represented a final step in creating a single regulator for upstream oil, oil sands, natural gas and coal development in Alberta.

Under REDA the AER has regulatory responsibilities for the entire life cycle of upstream energy resources development in the province. To accomplish this the AER has taken over administration of the regulatory functions previously provided by the ESRD in respect of energy resource activities.

Transferred assets		Transferred liabilities	
Cash	\$ 1,386	Security deposits	\$ 29,343
Security deposits	29,343	Deferred revenue	1,386
Transferred at end of year	<u>\$ 30,729</u>	Transferred at end of year	<u>\$ 30,729</u>

In addition, the AER received \$1,392,361 in letters of credit related to deposits received due to additional responsibilities assumed from ESRD.

Note 4 Orphan abandonment

The AER has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The AER grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. During the year ended March 31, 2014, the AER collected \$15,242 (2013 - \$12,151) in levies and \$930 (2013 - \$850) in application fees.

Note 5 Cash and cash equivalents

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' principal. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2014, securities held by the Fund have a time-weighted return of 1.2% per annum (2013 - 1.3%).

Note 6 Security deposits

The AER encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, mines, mine sites and oilfield waste management facilities by holding various forms of security. At March 31, 2014, the AER held \$100,211 (2013 - \$52,520) in cash and an additional \$1,595,700 (2013 - \$112,580) in letters of credit of which, \$29,343 in cash and \$1,392,151 in letters of credit related to deposits received due to additional responsibilities assumed from ESRD. The security, along with any interest earned, will be returned to the depositors upon meeting specified refund criteria.

Note 7 Tangible capital assets

	Land	Leasehold improvements	Furniture & equipment	Computer hardware & software	Total
<i>Estimated useful life</i>	<i>Indefinite</i>	<i>Term of the lease</i>	<i>5-12 years</i>	<i>4-5 years</i>	
Historical cost					
Beginning of year	\$ 282	\$ 25,954	\$ 11,291	\$ 105,962	\$ 143,489
Additions	-	2,639	2,039	9,192	13,870
	282	28,593	13,330	115,154	157,359
Accumulated amortization					
Beginning of year	\$ -	\$ 4,653	\$ 7,395	\$ 78,294	\$ 90,342
Amortization expense	-	1,351	896	9,798	12,045
	-	6,004	8,291	88,092	102,387
Net book value at March 31, 2014	\$ 282	\$ 22,589	\$ 5,039	\$ 27,062	\$ 54,972
Net book value at March 31, 2013	\$ 282	\$ 21,301	\$ 3,896	\$ 27,668	\$ 53,147

Historical cost includes work-in-progress at March 31, 2014 totaling \$2,122 comprised of: computer hardware and software \$1,507 (March 31, 2013 - \$835) and leasehold improvements \$615 (March 31, 2013 - nil).

Note 8 Deferred Revenue

	2014	2013
Balance at beginning of year	\$ 1,485	\$ 1,523
Received during year	3,758	371
Less amounts recognized as revenue	(2,272)	(409)
Balance at end of year	<u>\$ 2,971</u>	<u>\$ 1,485</u>

Note 9 Deferred lease incentives

The AER has entered into various lease agreements which provide for lease incentives comprised of reduced rent benefits and leasehold improvement costs. These amounts are included in deferred lease incentives and are amortized on a straight line basis over the term of the lease.

	2014			2013
	<i>Leasehold improvement costs</i>	<i>Reduced rent benefits</i>	<i>Total</i>	<i>Total</i>
Balance at beginning of year	\$ 20,095	\$ 4,062	\$ 24,157	\$ 25,524
Additions during the year	320	428	748	-
Amortization	(1,140)	(230)	(1,370)	(1,367)
Balance at end of year	<u>\$ 19,275</u>	<u>\$ 4,260</u>	<u>\$ 23,535</u>	<u>\$ 24,157</u>

Note 10 Pension

The AER participates in the Government of Alberta's multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. For the year ended March 31, 2014, the expense for these pension plans is equal to the contribution of \$13,194 (2013 - \$10,229).

In addition, the AER maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2011. The accrued benefit obligation as at March 31, 2014 is based on the extrapolation of the results of this valuation. The effective date of the next required funding valuation for SEPP is December 31, 2014.

Pension plan assets are valued at market values. During the year ended March 31, 2014 the weighted average actual return on plan assets was 9.2% (5.4% in 2013).

Significant weighted average actuarial and economic assumptions used to value accrued benefit obligations and pension benefit costs are as follows:

	March 31, 2014	March 31, 2013
<i>Accrued benefit obligations</i>		
Discount rate	5.3%	5.0%
Rate of compensation increase	3.8%	3.8%
Long-term inflation rate	2.3%	2.3%
	2014	2013
<i>Pension benefit costs for the year</i>		
Discount rate	5.0%	5.0%
Expected rate of return on plan assets	5.0%	5.0%
Rate of compensation increase	3.8%	3.8%

Note 10 Pension (continued)

The funded status and amounts recognized in the Statement of Financial Position are as follows:

	March 31, 2014	March 31, 2013
Market value of plan assets	\$ 37,859	\$ 34,568
Accrued benefit obligations	43,231	39,732
Plan (deficit)	(5,372)	(5,164)
Unamortized actuarial loss	2,081	1,904
Pension obligations	<u>\$ (3,291)</u>	<u>\$ (3,260)</u>

The pension benefit costs for the year include the following components:

	2014	2013
Current period benefit cost	\$ 2,022	\$ 1,921
Interest cost	2,030	1,900
Expected return on plan assets	(1,786)	(1,671)
Amortization of actuarial losses	395	334
	<u>\$ 2,661</u>	<u>\$ 2,484</u>

Additional information about the defined benefit pension plans is as follows:

	2014	2013
AER contribution	\$ 2,630	\$ 2,468
Employees' contribution	507	444
Benefits paid	3,024	1,859

The asset allocation of the defined benefit pension plans' investments is as follows:

	March 31, 2014	March 31, 2013
Equity securities	49.4%	50.9%
Debt securities	39.0%	38.0%
Other	11.6%	11.1%
	<u>100.0%</u>	<u>100.0%</u>

Note 11 Contractual obligations

Contractual obligations are obligations of the AER to others that will become liabilities in the future when the terms of those contracts or agreements are met.

Estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2015	\$ 19,781
2016	16,958
2017	15,286
2018	14,293
2019	11,982
2020-2086	131,565
	<u>\$ 209,865</u>

Note 12 Related party transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements.

The AER had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other entities	
	2014	2013	2014	2013
<i>Revenues</i>				
Provincial grant	\$ 36,300	\$ 54,543	\$ -	\$ -
Information, services and fees	146	161	144	149
	<u>\$ 36,446</u>	<u>\$ 54,704</u>	<u>\$ 144</u>	<u>\$ 149</u>
<i>Expenses</i>				
Computer services	\$ 2,154	\$ 2,043	\$ 1,197	\$ 1,483
Buildings	-	-	553	548
Administrative	275	-	617	636
Consulting services	153	44	173	424
	<u>\$ 2,582</u>	<u>\$ 2,087</u>	<u>\$ 2,540</u>	<u>\$ 3,091</u>
<i>Receivable from</i>	<u>\$ 86</u>	<u>\$ 132</u>	<u>\$ 15</u>	<u>\$ 21</u>
<i>Payable to</i>	<u>\$ 4,571</u>	<u>\$ 4,494</u>	<u>\$ 605</u>	<u>\$ 188</u>

Note 13 Contingent liabilities

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

Note 14 Approval of financial statements

These financial statements were approved by the AER Board of Directors on May 9, 2014.

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 1 Energy Regulation Expenses

Year Ended March 31 (in thousands)

	2014	2013
Personnel	\$ 136,564	\$ 114,682
Consulting services	21,962	14,247
Buildings	14,660	13,994
Computer services	12,710	10,719
Amortization of tangible capital assets	12,045	11,667
Travel and transportation	5,076	3,946
Administrative	3,161	2,814
Equipment rent and maintenance	1,108	946
Abandonment and enforcement	1,024	590
Loss on disposal of tangible capital assets	-	121
	<u>\$ 208,310</u>	<u>\$ 173,726</u>

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 2A ERCB Salaries and Benefits Disclosure

Year Ended March 31 (in thousands)

Position	2014			2013	
	Base Salary ^(a)	Other Cash Benefits ^(b)	Other Non-cash Benefits ^(c)	Total	Total
Chairman ^(d)	\$ -	\$ -	\$ -	\$ -	\$ 310
Acting Chairman ^(d)	48	9	1	58	283
Board Member 1 ^(e)	40	123	1	164	266
Board Member 2 ^(e)	40	157	11	208	265
Board Member 3 ^(e)	40	-	11	51	246
Board Member 4 ^(e)	40	137	11	188	245
Board Member 5 ^(e)	40	-	11	51	242
Board Member 6 ^(e)	40	194	3	237	213

(a) Pensionable base pay.

(b) Payments in lieu of vacation, health, retirement allowances and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships and tuition fees. Automobiles were provided, but no amount is included in these figures.

(d) The Chairman's position became vacant on December 31, 2012. The Vice-Chairman served the ERCB as Acting Chairman effective January 1, 2013 to June 16, 2013.

(e) Total 2014 compensation reflects compensation earned by Board Members to June 16, 2013.

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 2B AER Salaries and Benefits Disclosure

Year Ended March 31 (in thousands)

Position	2014				2013
	Base Salary ^(a)	Other Cash Benefits ^(b)	Other Non-cash Benefits ^(c)	Total	Total
Board of Directors					
Chairman ^(d)	\$ 248	\$ -	\$ 7	\$ 255	N/A
Board Director 1 ^(d)	88	-	6	94	N/A
Board Director 2 ^(d)	94	-	6	100	N/A
Board Director 3 ^(d)	88	-	6	94	N/A
Board Director 4 ^(d)	95	-	2	97	N/A
Board Director 5 ^(d)	95	-	7	102	N/A
Board Director 6 ^(d)	90	-	6	96	N/A
Board Director 7 ^(d)	89	-	3	92	N/A
Executive					
President and Chief Executive Officer ^(e)	416	6	136	558	N/A
Chief Hearing Commissioner ^(f)	165	35	12	212	N/A
Executive Vice-President, Corporate Services ^(g)	195	4	65	264	N/A
Executive Vice-President and General Counsel ^(h)	205	24	50	279	N/A
Executive Vice-President, Operations ⁽ⁱ⁾	192	4	44	240	N/A
Executive Vice-President, Stakeholder & Government Relations ^(j)	166	12	56	234	N/A
Executive Vice-President, Strategy & Regulatory ^(k)	206	23	49	278	N/A

(a) Includes retainers and per diems for Board Directors. Members of the Board of Directors do not participate in the AER's pension plans. Includes pensionable base pay for Executives.

(b) Payments in lieu of vacation, health, vehicle allowances and pension benefits.

SCHEDULE 2B (continued)

- (c) Contributions to all benefits as applicable including Employment Insurance, Canada Pension Plan, Alberta pension plans, health benefits or payments made for professional memberships and tuition fees. If automobiles were provided, no amount is included in these figures.
- (d) Total 2014 compensation reflects compensation earned by members of the Board of Directors appointed subsequent to June 16, 2013 as a result of the proclamation of REDA.
- (e) The incumbent held the position effective June 17, 2013. This is a new position as the result of the proclamation of REDA.
- (f) The incumbent held the position effective June 17, 2013. This is a new position as the result of the proclamation of REDA.
- (g) The incumbent held the position effective July 1, 2013. This is a new position as the result of the proclamation of REDA.
- (h) The incumbent held the position effective June 17, 2013. This is a new position as the result of the proclamation of REDA.
- (i) The incumbent held the position effective August 12, 2013. This is a new position as the result of the proclamation of REDA.
- (j) The incumbent held the position effective August 12, 2013. This is a new position as the result of the proclamation of REDA.
- (k) The incumbent held the position effective June 17, 2013. This is a new position as the result of the proclamation of REDA.
- (l) Under the terms of the AER's defined benefit SEPP and two supplementary retirement plans (SRP), employees may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The SEPP and SRP provide future pension benefits to participants based on years of service and remuneration. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service, a market interest rate, and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs, amortization of actuarial gains and losses, and interest accruing on the actuarial liability. The costs detailed below are only for those employees included in Schedule 2(b) who participate in the SEPP and SRP maintained by the AER to compensate senior staff who do not participate in the government management pension plans.

Position	Pension Expense for the Period June 17, 2013 to March 31, 2014			2013
	Current Service Cost	Prior Service & Other Costs	Total	Total
Executive Vice-President and General Counsel	26	3	29	N/A
Executive Vice-President, Operations	-	-	-(m)	N/A
Executive Vice-President, Strategy & Regulatory	23	11	34	N/A

- (m) Pension expense is determined at the beginning of the fiscal period. As this employee became a member of the AER's supplementary pension plans on August 12, 2013 the estimated pension expense is nil.

Position	Accrued Obligation June 16, 2013	Changes in Accrued Obligation	Accrued Obligation March 31, 2014
Executive Vice-President and General Counsel	229	72	301
Executive Vice-President, Operations	-	44	44 ⁽ⁿ⁾
Executive Vice-President, Strategy & Regulatory	813	56	869

- (n) The accrued obligation at March 31, 2014 is an estimate only as the March 31, 2014 accounting disclosure is based on a December 31, 2012 valuation extrapolated to March 31, 2014.

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 3 Estimates

Year Ended March 31, 2014 (in thousands)

	PLAN			
	Estimates ^(a)	Changes	Authorized Budget	Actual
Revenues				
Industry levies and assessments	\$ 166,148	\$ 15,250	\$ 181,398	\$ 181,668
Provincial grant	-	36,300	36,300	36,300
Information, services and fees	9,259	-	9,259	7,431
Investment	2,500	-	2,500	1,023
	177,907	51,550	229,457	226,422
Expenses				
Energy regulation	170,857	28,500	199,357	208,310
Orphan abandonment	12,750	3,250	16,000	16,172
	183,607	31,750	215,357	224,482
Annual operating surplus (deficit)	(5,700)	19,800	14,100	1,940
Capital				
Capital investment	9,000	19,800	28,800	13,870
Less: Amortization	(14,700)	-	(14,700)	(12,045)
Net capital investment	(5,700)	19,800	14,100	1,825
	\$ -	\$ -	\$ -	\$ 115

(a) Estimates are based on the AER Business Plan for the year ended March 31, 2014. The Estimates and Changes have been approved by the Treasury Board of the Government of Alberta as the Authorized Budget.